

GAO

Report to Congressional Requesters

May 2000

FOREIGN RELATIONS

Better Accountability Needed Over U.S. Assistance to Micronesia and the Marshall Islands

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Abbreviations

EPA	Environmental Protection Agency
FAA	Federal Aviation Administration
FEMA	Federal Emergency Management Agency
FNS	Food and Nutrition Service
HHS	Health and Human Services
HUD	Housing and Urban Development
NOAA	National Oceanic Atmospheric Administration
NSF	National Science Foundation
O&M	Operation and Maintenance
PCB	polychlorinated biphenyl
SBA	Small Business Administration
SSA	Social Security Administration
USDA	United States Department of Agriculture



United States General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-284387

May 31, 2000

The Honorable Frank H. Murkowski
Chairman, Committee on Energy
and Natural Resources
United States Senate

The Honorable Doug Bereuter
Chairman, Subcommittee on Asia
and the Pacific
Committee on International Relations
House of Representatives

The Honorable Larry E. Craig
United States Senate

In 1986, the U.S. government entered into a Compact of Free Association (Compact) with the Federated States of Micronesia and the Republic of the Marshall Islands. The Compact granted these former Trust Territory districts their independence and provided a framework for future governmental relations. The Compact provided for 15 years of direct U.S. payments made by the Department of the Interior to the bank accounts of the Federated States of Micronesia and the Republic of the Marshall Islands. The direct payments from Interior were to be used for such purposes as capital construction projects, energy production, communication capabilities, and recurring operational activities, such as infrastructure maintenance. The Compact and its enacting legislation also gave U.S. federal agencies the authority to provide other assistance such as grants, loans, equipment, and technical assistance. Under the Compact's enacting legislation and by executive order, Interior is designated as the agency responsible for supervising, coordinating, and monitoring the federal assistance programs being provided. Interior's Office of Insular Affairs is responsible for carrying out these responsibilities. In addition, the Compact provided for continuing financial compensation to the Republic of the Marshall Islands for effects from the tests of U.S. nuclear weapons in the islands during the 1940s and 1950s.

In the fall of 1999, negotiations between the Department of State and the Islands began on the financial provisions of the Compact that expire in 2001. To assist the United States in its negotiations, you asked us to report

on the (1) cost to the United States of providing assistance to the Federated States of Micronesia and to the Republic of the Marshall Islands in accordance with the existing Compact of Free Association from fiscal year 1987 through fiscal year 1999 and (2) funds provided prior to the Compact (earlier than fiscal year 1987) for the effects of nuclear weapons testing to what is now the Republic of the Marshall Islands. We are also providing information on the accuracy and reliability of the data Interior uses to monitor and supervise the federal assistance programs. In a separate review, you have asked us to report on the expenditures of Compact funds and accountability for those expenditures, the state of economic development and factors that affected development.

To identify the cost of providing assistance to the Federated States of Micronesia and the Republic of the Marshall Islands, we obtained data from the Office of Insular Affairs to determine amounts provided in direct payments. We verified the amounts by examining the supporting documentation and identified errors needing correction. In addition, we obtained and examined the annual audits conducted in the Federated States of Micronesia and the Republic of the Marshall Islands. Furthermore, we obtained data from 19 U.S. federal agencies on the assistance provided in the form of direct payments, grants, loans, equipment, and technical assistance, which was the best information available, according to agency officials. To determine the amount of funding provided prior to the Compact for the effects of nuclear weapons testing, we identified direct payments to or for the affected people of the Marshall Islands, trust funds, health care and monitoring, agricultural support, land rehabilitation and resettlement, and radiological cleanup.

Results in Brief

Since the implementation of the Compact of Free Association in 1986, the United States has provided more than \$2.6 billion in financial and other assistance, of which more than \$1.5 billion was provided to the Federated States of Micronesia and over \$1.1 billion was provided to the Republic of the Marshall Islands during fiscal years 1987 through 1999. The Department of the Interior provided the majority of the assistance, about \$2 billion, through quarterly payments to the Islands' bank accounts to be used for such purposes as capital construction projects, energy production, communication capabilities, and current account costs, such as those for payroll, maintenance, and other general government activities. The remaining half billion dollars was provided by 19 federal agencies in the form of grants, loans, equipment, and technical assistance, such as weather forecasting support and airport training activities.

Prior to the Compact, the United States provided about \$250 million in funding and assistance to what is now the Republic of the Marshall Islands for the effects of the U.S. nuclear weapons testing program that took place in the islands during the 1940s and 1950s. The departments of Defense, Energy, and the Interior provided direct payments to the Islands' governments and individuals, rehabilitation and resettlement services, and health care and monitoring of islanders exposed to radioactive fallout.

In gathering and verifying data on the cost of U.S. assistance provided to the Islands, we found inaccuracies and inconsistencies with the data being used by Interior to supervise and monitor federal assistance programs. For example, Interior had a number of errors in the budget data it reported annually to the Congress on direct payments made to the Islands. In addition, there were significant inconsistencies in Interior's data on the assistance provided by other agencies to the Islands and the data the agencies reported to us. Furthermore, Interior's budget data showed that it reimbursed over \$124 million to other agencies for federal services provided to the Islands. However, the other agencies reported to us that they received about \$53 million. After discussions with Interior about the \$71 million difference, Interior was unable to provide documentation for about \$27 million. Finally, Interior had not used the annual audit information available from the Islands to corroborate its figures. Collectively, therefore, Interior's ability to accurately report on assistance provided is called into question. We are making recommendations to improve the reliability of Interior's data and accountability for the assistance provided under the Compact.

We presented a draft of this report to the Department of the Interior, the Department of State, the Federated States of Micronesia, and the Republic of the Marshall Islands for comment. Interior raised several concerns, especially regarding our presentation of its monitoring and coordination roles. The State Department concurred with our recommendation calling for greater accountability of the assistance provided under the Compact. The Federated States of Micronesia did not comment on the draft report. The Republic of the Marshall Islands raised concerns about how much of the reported assistance provided for the effects of nuclear weapons testing is actually compensation. Collectively, in response to the comments that we received, we modified our recommendations and made some modest changes to the report's presentation.

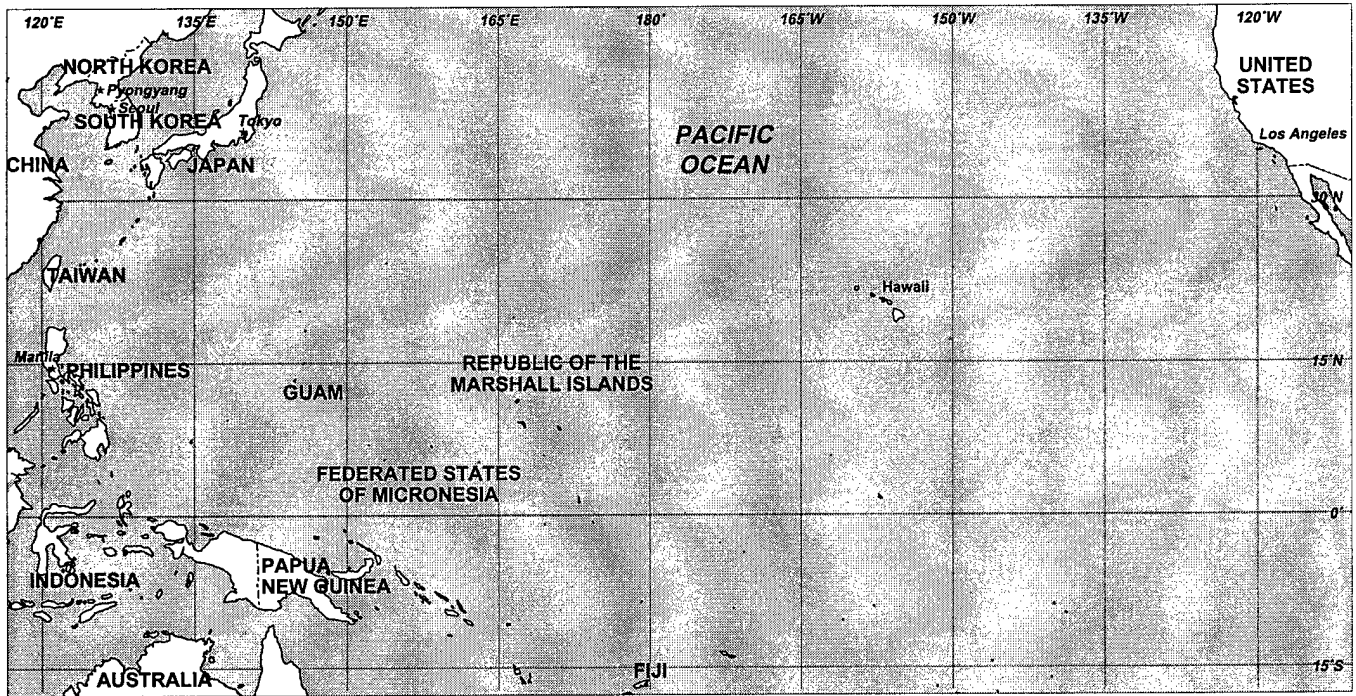
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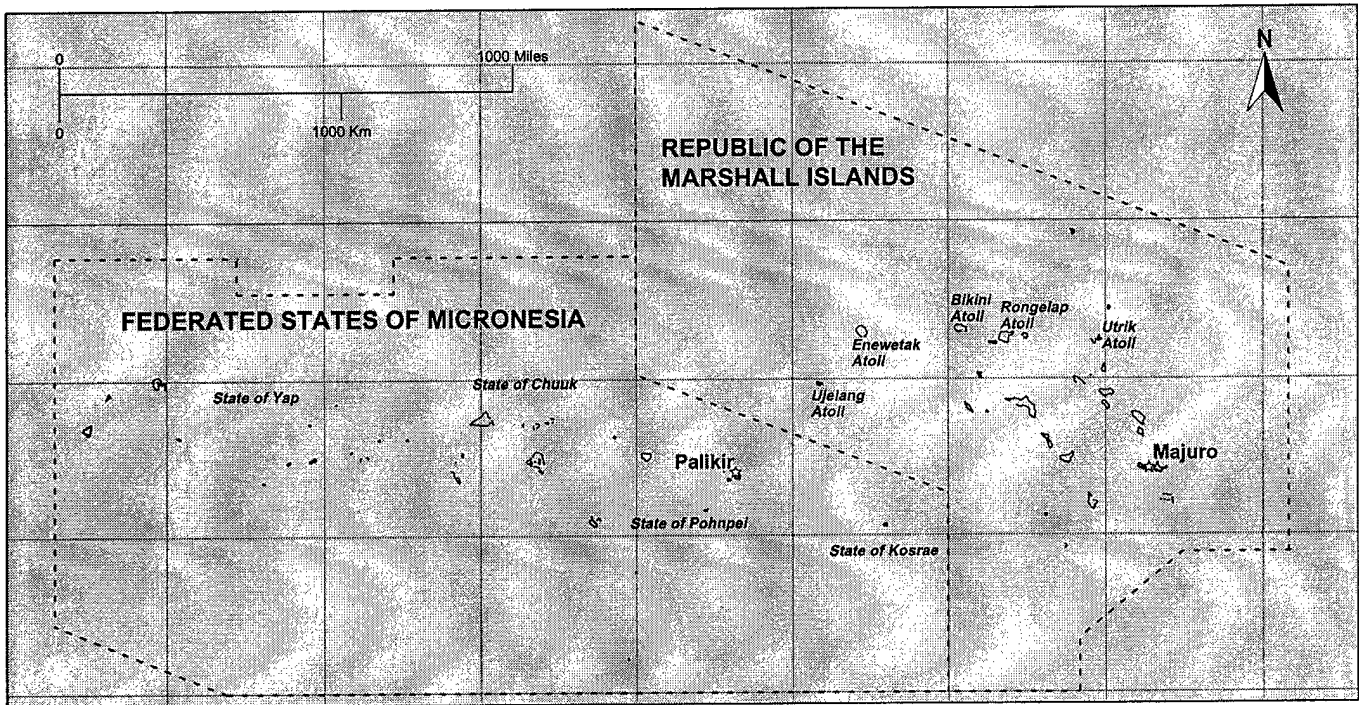
The Federated States of Micronesia is a grouping of 607 small islands in the Western Pacific about 2,500 miles southwest of Hawaii, lying just above the Equator. The Federated States of Micronesia has a total land area of about 270 square miles but occupies more than 1 million square miles of the Pacific Ocean. The Federated States of Micronesia comprises four states—Chuuk, Pohnpei, Yap, and Kosrae—with an estimated total population of 131,500.¹ The Republic of the Marshall Islands is made up of more than 1,200 islands, islets, and atolls, with a total land area of about 70 square miles. The Marshall Islands are located in the Central Pacific about 2,100 miles southwest of Hawaii and about 2,300 miles southeast of Japan. The Marshall Islands occupy about 750,000 square miles of the Pacific Ocean and have a total population of approximately 50,500.²

¹Population figure is from July 1999 estimates from the Central Intelligence Agency's World Factbook 1999.

²Population figure supplied by Marshall Islands based on recent census.

Figure 1: Location of the Federated States of Micronesia and the Marshall Islands





The U.S. Department of Navy began civil administration of Micronesia and the Marshall Islands on July 18, 1947, as part of the United Nations Trust Territory of the Pacific Islands.³ This responsibility transferred to Interior in July 1951. During the time that the Federated States of Micronesia and the Marshall Islands were districts of the Trust Territory, the United States aided them by, among other things, building roads, hospitals, and schools and providing support for government operations. In 1986, the United States entered into a Compact of Free Association with the Federated States of Micronesia and the Republic of the Marshall Islands. With the implementation of the Compact, the Federated States of Micronesia and the Marshall Islands became Freely Associated States. As Freely Associated States, which were subsequently granted admission to the United Nations, the governments could engage in world affairs as sovereign states with very limited restraint and operate their own fiscal systems. Their citizens are not U.S. citizens, but they may live, work, and study in the United States as resident aliens. According to State Department officials, this is unique under U.S. immigration law. Additionally, by law there is no requirement that these persons possess either a valid passport or visa to enter the United States. Under the agreement, the United States is obligated to defend the Freely Associated States and has, among other things, obtained military operating rights and the right to continue using the U.S. missile range on Kwajalein—a Marshall Islands atoll—until 2016. The governments of the Marshall Islands, the Federated States of Micronesia, and the United States established that through 2001 these Freely Associated States would refrain from actions that the U.S. government determines, after consultation with the other governments, to be incompatible with its authority and responsibility for security and defense of the Freely Associated States.⁴

Executive Order 12569 requires Interior to provide direct payments deposited in the Islands' bank accounts.⁵ In addition, the Compact provides that Interior and other U.S. federal agencies may provide program assistance. This other assistance includes

³In addition to Micronesia and the Marshall Islands, the Trust Territory included what are now the Republic of Palau and the Commonwealth of the Northern Marianas Islands.

⁴Marshall Islands officials said that this allows the United States to veto any exercise of sovereignty by the Marshall Islands that the United States determines unilaterally to be incompatible with U.S. security policy.

⁵Payments are made quarterly. Appendix I provides additional information on the Compact's financial provisions.

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- direct program assistance, which includes grants and loans provided by individual federal agencies;
 - indirect program assistance, which includes goods and services provided by federal agencies; and
 - guaranteed federal services, which are provided by specifically identified agencies and reimbursed by Interior.

The Compact's authorizing statute gave Interior the responsibility for dispensing the majority of the funds, most of which are provided in direct payments. Of the direct payments for promoting self-sufficiency, both the Federated States of Micronesia and the Marshall Islands must dedicate an average over 15 years of no less than 40 percent to their capital accounts.⁶ In addition, Interior is responsible for supervising, coordinating, and monitoring federal program assistance being provided by other U.S. federal agencies. According to the Office of Territorial and Insular Affairs' Administrative Manual, in 1987, the Secretary of the Interior determined that the most effective method for U.S. federal agencies to provide continuing federal programs to the Freely Associated States was to create a direct grant relationship between the other agencies and the Island governments.⁷ As a result, the principal role of Interior has been to provide technical assistance and respond to assistance issues identified by either the federal agencies or the Freely Associated States.

⁶The capital account is to be used for, among other things, construction or major repair of the capital infrastructure and selected public and private sector projects.

⁷The Office of Territorial and Insular Affairs is the predecessor to the Office of Insular Affairs.

The Marshall Islands was the site of 67 U.S. nuclear weapons tests in the 1940s and 1950s. In order to conduct these tests, the United States moved 167 people from Bikini Atoll and 142 people from Enewetak Atoll to other locations. In addition, during one of the tests, called BRAVO, the residents of Rongelap and Utrik were exposed to radioactive fallout and subsequently were moved from their homes. The people of Bikini began to return to their atoll in 1969 but were removed again in 1978 after it was found that they were being exposed to too much radiation. After the cleanup and reconstruction was completed in 1980, the people of Enewetak returned.⁸ The people of Rongelap were returned to their homes after about 3 years, but in 1985 they moved from their homeland after they expressed concern about their exposure to radiation. The people of Utrik were returned a few months after being removed.⁹ At this time, most of the people of Bikini and Rongelap are not living on their home islands. Since the time of the testing, the United States has compensated the people of the Marshall Islands for hardships they experienced, such as being moved from their homeland and health problems due to exposure from fallout.

Over \$2.6 Billion in Assistance and Compensation Was Provided During Fiscal Years 1987 Through 1999

According to data reported by federal agency officials, the United States provided over \$2.6 billion in assistance and compensation to the Federated States of Micronesia and the Republic of the Marshall Islands during fiscal years 1987 through 1999. The officials said that over \$1.5 billion in assistance was provided to the Federated States of Micronesia and over \$1.1 billion was provided to the Marshall Islands, almost \$303 million of which was provided as compensation for the effects of nuclear weapons testing.

⁸According to Marshall Islands officials, the people of Enewetak have limited use of their atoll because of contamination in the northern islands and environmental degradation that occurred as a result of cleanup activities. They continue to pursue claims for their losses, according to these officials.

⁹According to Marshall Islands officials, the people of Utrik are deeply concerned about health effects they attribute to living in a contaminated environment.

Over \$1.5 Billion in Assistance Provided to the Federated States of Micronesia

The United States provided over \$1.5 billion in assistance to the Federated States of Micronesia during fiscal years 1987 through 1999. As shown in table 1, Interior provided approximately \$1.2 billion, or about 78 percent of the funding, over the 13-year period. The departments of Agriculture and Education reported that they provided assistance totaling about \$82 million and \$79 million, respectively, with each agency providing about 5 percent of all assistance provided to the Federated States of Micronesia during that time period. Fifteen other agencies provided the remaining assistance. Appendix II provides additional details on the assistance each agency provided.

Table 1: Assistance Provided to the Federated States of Micronesia by Agency, Fiscal Years 1987 Through 1999

Dollars in thousands

Agency or Department	Total	Percent of total
Interior	\$1,188,658	77.6
Agriculture (USDA) ^a	81,873	5.3
Education ^b	78,954	5.2
Health and Human Services (HHS)	62,124	4.1
Federal Emergency Management Agency (FEMA) ^a	45,182	2.9
Commerce/National Oceanic Atmospheric Administration (NOAA)	28,915	1.9
Labor	18,539	1.2
Defense	10,557	0.7
Transportation/Federal Aviation Administration (FAA)	4,765	0.3
U.S. Postal Service ^c	4,398	0.3
Environmental Protection Agency (EPA)	3,878	0.3
Small Business Administration (SBA) ^a	1,878	0.1
Housing and Urban Development (HUD)	1,256	0.1
State	1,079	0.1
Social Security Administration (SSA) ^d	240	0.0
Institute of Museum and Library Services	111	0.0
National Science Foundation (NSF)	100	0.0
Total Federated States of Micronesia assistance^e	\$1,532,507	100.0

^aIncludes loans of \$61.615 million from USDA, \$1.859 million from FEMA, and \$1.878 million from SBA. Does not include about \$18 million in assistance from USDA provided to the Federated States of

Micronesia, the Marshall Islands, and the Republic of Palau because USDA could not identify the amount of funding that went to each individual country.

^bDoes not include about \$10.1 million that Education provided to the Federated States of Micronesia and the Marshall Islands for supplemental education opportunity grants, federal work study, and additional Pell grants, because it could not identify the amount of funding that went to each individual country.

^cThe Postal Service did not report data for fiscal year 1999.

^dThe amount reported for SSA includes only fiscal years 1998 and 1999 and excludes 3 months of data. Additional amounts are included in the total for HHS, where the SSA existed before becoming an independent agency in 1995.

^eIncludes direct payments, grants, loans, indirect assistance, and guaranteed federal services. Legal Services Corporation provided about \$16 million in assistance to the Federated States of Micronesia, the Marshall Islands, the Commonwealth of the Northern Marianas Islands, and the Republic of Palau, but Legal Services could not identify the amount of funding that went to each individual country.

Source: Prepared by GAO using data provided by agencies.

Assistance provided by U.S. agencies was disbursed in a variety of ways: direct payments, direct program assistance, indirect program assistance, and guaranteed federal services. Interior provided almost \$1.2 billion in direct payments. These funds were deposited into the Federated States of Micronesia's bank account and were to be used for such purposes as capital construction projects; energy production; communication capabilities; and recurring operational activities, including infrastructure maintenance. Direct program assistance was provided by agencies in the form of grants, loans, and payments. For example, HHS provided over 200 grants amounting to \$62.1 million for such programs as childhood immunization, Head Start, substance abuse and mental health services, and tuberculosis control. Agency officials also reported providing a variety of indirect program assistance, such as technical support and equipment. Interior reimbursed four federal agencies—the Department of State, Transportation's FAA, Commerce's NOAA, and the U.S. Postal Service—for services provided. The reimbursements were for services such as Foreign Service training and weather forecasting support. Types of assistance and the reported amounts of funding provided during fiscal years 1987 through 1999 are shown in table 2.

Table 2: Types and Amounts of Assistance Provided to the Federated States of Micronesia, Fiscal Years 1987 Through 1999

Dollars in thousands	
Type of assistance	Amount
Direct payments from Interior	\$1,185,411
Direct program assistance	
Grants	192,757
Loans	65,352
Other	15,600
Indirect program assistance	34,244
Guaranteed federal service	39,143
Total Federated States of Micronesia assistance	\$1,532,507

Source: Prepared by GAO using data provided by agencies.

Over \$1.1 Billion in Assistance and Compensation Provided to the Republic of the Marshall Islands

Agency officials reported that more than \$1.1 billion in assistance and compensation was provided to the Marshall Islands during fiscal years 1987 through 1999. As shown in table 3, Interior provided about \$864 million, or approximately 78 percent of the funding. Officials from five other agencies, including FEMA, USDA, HHS, and the departments of Education and Energy, reported providing between \$25 million and \$75 million in assistance. Ten other agencies provided the remaining assistance. Appendix II provides additional information on the assistance each agency reported.

Table 3: Assistance and Compensation Provided to the Marshall Islands, Fiscal Years 1987 Through 1999

Dollars in thousands		
Agency or Department	Total	Percent of total
Interior	\$864,202	77.7
Energy	75,425	6.8
USDA ^a	50,386	4.5
HHS	34,572	3.1
Education ^b	31,924	2.9
FEMA ^a	26,041	2.3

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Agency or Department	Total	Percent of total
Commerce/NOAA	10,621	1.0
Labor	10,547	0.9
EPA	1,864	0.2
SBA ^a	1,621	0.1
U.S. Postal Service ^c	1,466	0.1
SSA ^d	1,129	0.1
State	1,097	0.1
Transportation/FAA	881	0.1
HUD	275	0.0
Institute of Museum and Library Services	94	0.0
Total Marshall Islands assistance^e	\$1,112,145	100.0

^aIncludes loans of \$37.366 million from USDA, \$0.689 million FEMA, and \$1.621 million from SBA. Does not include about \$18 million in assistance provided to the Federated States of Micronesia, the Marshall Islands, and the Republic of Palau because USDA could not identify the amount of funding that went to each individual country.

^bDoes not include about \$10.1 million that Education provided to the Federated States of Micronesia and the Marshall Islands for supplemental education opportunity grants, federal work study, and additional Pell grants because it could not identify the amount of funding that went to each individual country.

^cThe Postal Service did not report data for fiscal year 1999.

^dThe amount reported for the SSA includes only fiscal years 1998 and 1999 and excludes 3 months of data.

^eIncludes direct payments, grants, loans, indirect assistance, and guaranteed federal services. Legal Services Corporation provided about \$16 million in assistance to the Federated States of Micronesia, the Marshall Islands, the Commonwealth of the Northern Marianas Islands, and the Republic of Palau, but Legal Services could not identify the amount of funding that went to each individual country.

Source: Prepared by GAO using data provided by agencies.

As they did with the Federated States of Micronesia, U.S. agencies provided assistance to the Marshall Islands through direct payments, direct program assistance, indirect program assistance, and guaranteed federal services. Interior provided almost \$861 million in direct payments, which includes almost \$303 million provided as compensation to the people of Bikini, Rongelap, Utrik, and Enewetak for the effects of nuclear weapons testing. In addition, federal agencies reported that they provided a total of over \$137 million in direct program assistance in the form of grants, loans, and payments. For example, Education reported providing over 70 grants under 17 programs totaling about \$27.3 million, which were used for such assistance as special education, federal work study, and school improvement. Agency officials also reported providing a variety of indirect assistance, such as technical assistance and equipment. The Department of

State, FAA, NOAA, and the U.S. Postal Service reported providing federal services that were reimbursed by Interior. Types of assistance and the reported amounts of funding provided during fiscal years 1987 through 1999 are shown in table 4.

Table 4: Assistance and Compensation Provided to the Marshall Islands, Fiscal Years 1987 Through 1999

Dollars in thousands	
Type of assistance	Amount
Direct payments from Interior ^a	\$860,955
Direct program assistance	
Grants	96,160
Loans	39,686
Other	1,889
Indirect program assistance	95,323
Guaranteed federal service	14,065
Nuclear testing compensation ^b	4,067
Total Marshall Islands assistance	\$1,112,145

^aDirect payments from Interior include almost \$303 million provided as compensation for the effects from nuclear weapons testing.

^bNuclear testing compensation was provided by USDA and does not include almost \$303 million in direct payments made by Interior as compensation for the effects from nuclear weapons testing.

Source: Prepared by GAO using data provided by agencies.

About \$250 Million in Funding and Assistance Provided Prior to the Compact to the Marshall Islands

In addition to compensation provided under the Compact for the 67 nuclear weapons tests on the Marshall Islands' Bikini and Enewetak atolls, the United States provided about \$250 million prior to the Compact for the effects of nuclear weapons testing. The departments of Defense, Energy, and the Interior provided this funding and assistance in a variety of forms, including payments to affected people; trust funds; health care and monitoring; agricultural support; remediation, rehabilitation, and resettlement of land; and radiological cleanup.

Defense provided about \$134 million prior to the Compact for radiological cleanup, equipment, building construction, and logistical support. For example, on Enewetak Atoll, Defense planned the cleanup approach, removed debris and about 100,000 cubic yards of contaminated soils, and

provided support for the construction of new homes and other facilities. The Department also constructed a disposal site in a bomb crater on Runit where contaminated materials and soils were mixed with cement, and a concrete cap was installed. During its work, Defense had about 8,000 workers involved in the cleanup.

Prior to the Compact, Energy and its predecessor agencies (the Energy Research and Development Administration and the Atomic Energy Commission) provided about \$52 million to what is now the Republic of the Marshall Islands, primarily in the form of radiological monitoring and health care. Energy's Brookhaven National Laboratory and Lawrence Livermore National Laboratory conducted radiological surveys of the area, periodically tested those exposed, and provided medical care to the people of the four affected atolls of Bikini, Rongelap, Utrik, and Enewetak.

We were able to identify over \$66 million that Interior provided prior to the Compact. Authorized payments to those affected totaled about \$15 million, as shown in table 5. About 36 percent of these funds was to be paid directly to the affected people or to their communities, while the remaining 64 percent was placed in trust, and the individuals received payments from the interest. Interior also provided more than \$9 million in supplemental food for Enewetak from 1980 through 1986.¹⁰ In addition, Interior funded rehabilitation and resettlement efforts totaling about \$42 million.¹¹

¹⁰This amount includes funding for the construction and delivery of the Wetak II Motor Sailer.

¹¹ P. L. 95-74, July 26, 1977, authorized \$900,000 for a human development project in the Marshall Islands that required that matching funds be provided. This assistance is not included in the \$42 million because we were unable to determine if the Marshall Islands received these funds.

Table 5: Authorized Payments to the Marshall Islands for Effects of Nuclear Testing, Prior to the Compact

Fiscal year	Purpose	Amount
1956	Displacement assistance to the people of Bikini; \$25,000 authorized payment and \$300,000 in trust	\$325,000
1956	Displacement assistance to the people of Enewetak; \$25,000 authorized payment and \$150,000 in trust	175,000
1964	Authorized payment to the people of Rongelap for accidental exposure to nuclear fallout	950,000
1969	Authorized payment made to the people of Enewetak, placed in trust	1,020,000
1975	Authorized payment for displacement hardship to people of Bikini, placed in trust	3,000,000
1977	Authorized payment to Rongelap, Bikini, and Utrik communities	300,000
1978	Authorized payment for displacement hardship to the people of Bikini, which increased the Bikini trust fund	3,000,000
1978-1980	Authorized payments to the people of Rongelap and Utrik	1,700,000
1979	Authorized payment to the people of Bikini	1,400,000
1982	Immediate authorized payment of \$1 million to the people of Bikini and \$2 million placed in trust	3,000,000
Total^a		\$14,870,000

^aThe total reflects direct payments and the amount placed in the trust funds. The total does not reflect any interest accrued on the accounts.

Interior's Data on Assistance Provided to the Federated States of Micronesia and the Marshall Islands Are Not Accurate nor Reliable

While the Compact assigns Interior responsibility for coordinating and monitoring the federal assistance programs and activities provided to the Federated States of Micronesia and the Marshall Islands, we identified a number of inaccuracies and inconsistencies with Interior's data on the amount of assistance provided. For example, we found that errors or inconsistencies existed (1) in the data that Interior included in its annual budget justification submittals to the Congress on the direct payments made to the Federated States of Micronesia and the Marshall Islands; (2) between Interior's data on assistance provided by other agencies to the Islands and the data provided to us by those agencies; (3) in Interior's \$124 million "Federal Services" account, which it uses to reimburse some of the other agencies for their assistance to the Islands; and (4) between Interior's records of direct payments and figures contained in the Federated States of Micronesia's and the Marshall Islands' audited financial statements.

When we asked Interior for information on how much funding it provided to the Federated States of Micronesia and the Marshall Islands, officials responsible for the program directed us to a table in the United States Department of the Interior Budget Justification, Fiscal Year 2000.¹² The table contains Interior's appropriation allocation of funds provided for fiscal years 1987 through 1999 and projected allocations for fiscal years 2000 and 2001. The table includes a breakdown of the amounts in various subaccounts, such as ones labeled current, capital, inflation, energy production, and communication hardware.¹³ To determine whether the amounts shown were accurate and whether they represented actual payments to the Federated States of Micronesia and the Marshall Islands, we obtained documents showing the amounts transferred into the respective bank accounts. Additionally, we examined entries made to Interior's budgetary accounting system to determine how budget allocations were made for these funds to various subaccounts. We found that the total payments made to each country were generally accurate, with the exception of those made in 3 years for the Federated States of Micronesia and 2 years for the Marshall Islands. The five errors resulted in an overstatement of \$404,000 in the total reported assistance provided of about \$2 billion. In addition, there were 13 incorrect amounts shown in the table's subaccounts. For example, in fiscal year 1997, the table showed the current account for the Marshall Islands at \$5,460,000 and the capital account at \$13,640,000. These amounts, according to the budgetary accounting system entries, should have been \$12 million and \$7.1 million, respectively.¹⁴ The accuracy of the subaccounts is important since the Compact requires that at least 40 percent of the direct payments provided to promote self-sufficiency be used for capital account purposes and the accounts provide information on how the Federated States of Micronesia and the Marshall Islands may have used the funds. Interior corrected the table after we identified the errors.

¹²U.S. Department of the Interior, Office of Insular Affairs, Compact of Free Association, Marshall Islands and Federated States of Micronesia, Estimated Payments 1987-2001. The table indicates estimated payments because it includes future fiscal years, 2000 and 2001.

¹³ The capital account can generally be used for construction or repair of infrastructure, debt service, and training activities while the current account can be used to fund general operations.

¹⁴The errors in these accounts appear to have resulted from a misclassification of \$6,540,000 between the accounts.

As specified in the Compact's enacting legislation, Interior is responsible for coordinating and monitoring federal assistance programs and activities provided to the Federated States of Micronesia and the Marshall Islands. Interior officials provided us with a schedule they had prepared for the Department of State showing the dollar amount of assistance being provided by other agencies. This was the only document they had available that provided such information. In examining the schedule, we found that Interior's data disagreed with the information we had collected from the individual agencies. For example, Interior's schedule showed that the Department of Education provided the Marshall Islands \$17.5 million while data we obtained from Education showed that it provided about \$31.9 million.¹⁵ Interior officials told us that while they have attempted to get better information from the other agencies on the assistance they provide, there is no requirement for them to report to Interior. As a result, Interior has had limited success in obtaining such information from the other agencies.

Interior established a "Federal Services" account for reimbursing the cost of assistance provided by four agencies—NOAA, the Department of State, FAA, and the U.S. Postal Service. Interior's fiscal year 2000 budget justification table indicates that Interior made payments to other agencies from this account of \$124,432,000 from fiscal year 1987 through fiscal year 1999. However, the agencies that receive these reimbursements told us that they had received \$53 million from Interior.¹⁶ In attempting to explain the \$71 million difference, Interior identified (1) a \$20 million reprogramming from this account in fiscal year 1997 that was not accounted for in the table (thus overstating the amount of assistance provided in that year by \$20 million), (2) about \$9 million that it reimbursed to the Federated States of Micronesia and the Marshall Islands for annual audits required by the Compact and completed by the accounting firm Deloitte & Touche, (3) about \$11.6 million in funds that was obligated but not yet expended (some dating back to 1989—Interior is now examining these funds to determine if they should be maintained), and (4) a balance available of \$3.9 million. Interior officials were unable to provide documentation for the remaining \$26.5 million difference, explaining that their data for the first 2 years of the program were not readily available due to a change in the Department's

¹⁵We did not verify the information provided by the Department of Education.

¹⁶Interior officials gave us a schedule showing that they had provided about \$40 million to these agencies but explained that their data were incomplete because of a change in their computer systems in the first 2 years of the program.

computer systems. In addition, the officials explained that Interior had reimbursed the Department of Education for some of the assistance it provided in the early years of the Compact, but Interior was not able to identify the amount it reimbursed Education during those years.

The Compact requires that the Federated States of Micronesia and the Marshall Islands conduct an annual audit of the assistance provided. We planned to use the information contained in these audits to cross-check information we obtained from Interior. However, this could not be accomplished because the Federated States of Micronesia and the Marshall Islands did not always allocate the direct funding provided in the same way as Interior records show.¹⁷ For example, in the most recent audit of the Federated States of Micronesia, the capital account is shown as receiving \$18,048,768, while Interior shows that it provided \$16,000,000 in funds. We found that Interior had not used the audit data available from the Islands to corroborate its figures. While Interior is not required to use the audit data to reconcile its figures, it is important that Interior understand how the Islands have allocated the funding in order to determine whether the Islands are in compliance with Compact requirements regarding the use of the funds.

While we found errors and inconsistencies in Interior's data on the financial and program assistance provided to the Islands, we took steps to ensure that the data provided in this report are as accurate as possible. We verified and corrected Interior's data on direct payments made to the Islands. In addition, while we did not verify the program assistance provided by the 19 agencies, we reviewed the data, followed up with agency officials in instances where questions existed, and received agency confirmation on the accuracy of the amounts reported.

Conclusions

Although Interior is identified as the agency responsible for providing a majority of the funding as well as coordinating and monitoring the assistance programs and activities provided to the Federated States of Micronesia and the Marshall Islands, it has not maintained reliable data on

¹⁷The financial statements for Micronesia and the Marshall Islands indicated that they were prepared on a modified accrual basis of accounting, which also may cause difficulties in attempting to compare or cross-check amounts. In addition, the reports contained qualifications related to entities that were excluded from the financial statements, which would also represent an impairment to comparing amounts.

the amount of assistance provided. Numerous inconsistencies exist in Interior's own records as well as between Interior's records and those of both other U.S. federal agencies that provided assistance and figures in the annual audits conducted by Deloitte & Touche. These inconsistencies call into question Interior's ability to accurately report on assistance provided and the effectiveness of its coordination and monitoring responsibilities. This lack of reliable information could impact the Department of State as it proceeds with negotiations on provisions of the Compact that expire in 2001.

Recommendations

In the event Interior retains monitoring and coordination oversight as a result of the current negotiations, we recommend that the Secretary of the Interior direct the Office of Insular Affairs to develop a system to obtain and maintain data on all U.S. financial and program assistance provided to the Federated States of Micronesia and the Republic of the Marshall Islands. Such a system might include making agreements with other agencies to regularly report assistance provided and making use of the annual audit reports from the Federated States of Micronesia and the Marshall Islands to help identify how funds are allocated. In addition, we recommend that the Secretary direct the Office of Insular Affairs to reconcile the amounts reimbursed to other agencies shown in the budget justification table to the amounts reported by the agencies that receive reimbursements from Interior.

Given that negotiations are currently under way on provisions of the Compact of Free Association that expire in 2001, we recommend that the Secretary of State negotiate provisions that require that reliable data be maintained to ensure better accountability of the assistance provided. Requiring periodic reconciliation of accounts between Interior, the other agencies providing assistance, and the Islands is one means to achieve this objective.

Agency Comments

We provided a draft of this report to the Department of the Interior, the Department of State, the Republic of the Marshall Islands, and the Federated States of Micronesia for their review and comment.

Interior's comments fall into two general categories. First, Interior said that while it has a coordinating and monitoring role with respect to grants from other agencies, it does not have the authority to affect the manner, amount,

and use of these funds because the entire system has been designed to be decentralized. Our draft report did not suggest that Interior affect the manner, amount, or use of the grants and other program assistance provided by other agencies. However, Interior is identified in the Compact's enacting legislation and by executive order as the agency responsible for coordinating and monitoring federal programs being provided. In fulfilling that role, it is important that Interior know the type and amount of grants and other program assistance provided by other federal agencies. Second, Interior believes that we have misrepresented the financial information it provided. We disagree. Interior did not have accurate data on the direct grants it provided, the amounts other agencies provided, or the reimbursements it made to other agencies. Given that Interior is the agency responsible for providing oversight and monitoring of U.S. assistance to the Islands, we expected the agency to maintain accurate information on such assistance. Instead, to develop this information, we had to, among other things, examine Interior office files and request data from 19 agencies on the assistance that they provided to the Federated States of Micronesia and to the Marshall Islands and the amounts of the reimbursements they received from Interior. Finally, Interior also believes that the draft report recommendations make sense only if federal programs are extended in the next Compact term, if it is determined that one agency should account for all grant funding and if necessary legislation is enacted to create and enforce such a central grant authority. We agree with Interior and have modified the recommendations to make them applicable to the agency or agencies deemed responsible for monitoring and supervising assistance in the next term of the Compact. Interior's comments and our detailed response are in appendix III. Interior also provided technical clarifications, which we incorporated as appropriate.

The Department of State concurred with our recommendation calling for greater accountability for assistance provided under the Compact. However, the agency did not concur with our recommendation regarding funds not included in Interior's budget. The agency said that new policies and procedures are being considered that would relieve Interior of the responsibility to monitor and supervise assistance not included in Interior's budget. As noted previously, we have modified our recommendation accordingly. The Department of State's comments are in appendix IV. State also provided technical clarifications, which we incorporated as appropriate.

The Republic of the Marshall Islands said that it had serious concerns that the draft report misrepresented the unique history of U.S. financial

assistance to the Islands and that some of the assistance provided also benefits the United States. We provided additional information to the report to put the discussion of Compact funding in an historical context. Most of the Republic of the Marshall Islands' comments however, focused on the use of the term "compensation." The Marshall Islands viewed our use of this term as being too broad and said that the only true form of compensation was the direct payments made to the people who were affected by nuclear weapons testing. We recognize that there can be differing views on what constitutes compensation. As a result, we have modified the report so that funding provided prior to the Compact in connection with the effects of nuclear weapons testing is no longer characterized as compensation. The Republic of the Marshall Islands' comments and our response are included as appendix V.

The Federated States of Micronesia said that it did not have comments on the draft because they did not have access to Interior's or other U.S. federal agencies' accounting records. The officials pointed out that without the records, they were unable to respond to our findings. The Federated States of Micronesia's letter is in appendix VI.

Scope and Methodology

To obtain information on the cost to the United States in providing assistance to the Federated States of Micronesia and the Republic of the Marshall Islands, we reviewed the Compact of Free Association and subsequent agreements, applicable U.S. laws, reports of congressional hearings, and annual audit reports from the Federated States of Micronesia and the Marshall Islands. We also obtained data and interviewed officials from 19 federal agencies: the departments of the Interior, State, Agriculture, Commerce, Defense, Education, Energy, HHS, HUD, Labor, and Transportation as well as EPA, SSA, FEMA, the Institute of Museum and Library Services, Legal Services Corporation, NSF, the U.S. Postal Service, and SBA. We provided the financial data reported in appendix II to 17 agencies that confirmed the accuracy of the data. In addition, we met with representatives from the Federated States of Micronesia and the Marshall Islands.

We performed several steps to verify the data we obtained from the agencies. We compared Interior figures for direct payments with records of payments made to the Federated States of Micronesia's and the Marshall Islands' bank accounts. Furthermore, to the extent possible, we compared figures for grant assistance that we obtained from various agencies with data in the Deloitte & Touche single audit reports from the Federated

States of Micronesia and the Marshall Islands and discussed some of the differences with agency officials.

In performing the audit work to determine the costs to the United States of providing assistance in accordance with the Compact, we were faced with several limitations. For instance, Department of Justice officials were not able to identify any individuals within the department who were knowledgeable of the subject matter. Likewise, the U.S. Coast Guard could not identify an individual who could provide us with information on the amount of assistance provided to the Federated States of Micronesia and the Marshall Islands. In addition, some agencies, for example, SSA and the Postal Service, were not able to provide the information for all years. Furthermore, USDA, Education, and the Legal Services Corporation were not always able to allocate the assistance provided to each individual country. We also identified discrepancies between data received from federal agencies and figures in the single audit reports from the Federated States of Micronesia and the Marshall Islands. We were not able to resolve all the differences. Furthermore, we were not able to verify all direct payments made through Interior because of missing records. Finally, while we identified loans provided by the agencies, we did not evaluate the value of any debts that were forgiven under authority of the Compact.

To determine the amount of funding and assistance provided prior to the Compact for the effects of nuclear weapons testing to what is now the Republic of the Marshall Islands, we reviewed applicable U.S. laws and reports of congressional hearings. As part of this effort, we included such funding and assistance as direct payments to the affected people of the Marshall Islands, trust funds, health care and monitoring, agricultural support, land rehabilitation and resettlement, and radiological cleanup. In addition, we reviewed 68 reports from 1947 through 1986 by the Islands' High Commissioner and the Department of State on the activities of the Trust Territory of the Pacific Islands, and we examined selected archived microfilm records at the National Archives. We also interviewed departments of Defense, Energy, and Interior officials.

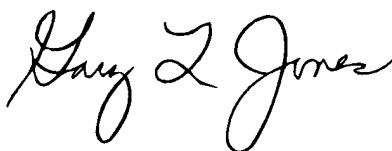
The departments of Defense and Energy provided estimates of the amount of funding that they provided prior to the Compact but had limited documentation for their estimates. Interior did not provide an estimate. Agency officials said that they faced difficulties identifying funding amounts because all records had not been retained for the period in question, and personnel who were involved were no longer available.

All dollar figures in this report are presented in nominal terms, with no adjustment for inflation. We were not able to present total assistance and compensation provided over the years in 1999 constant dollars, which would adjust for inflation, because the data available did not always identify the specific year in which the funds or assistance was provided. If we could have converted all figures to 1999 dollars, the amounts for total assistance and compensation provided would have been higher.

We conducted our work from August 1999 through April 2000 in accordance with generally accepted government auditing standards.

Copies of this report are being sent to the Honorable Bruce Babbitt, the Secretary of the Interior; the Honorable Madeleine K. Albright, the Secretary of State; His Excellency Leo A. Falcam, President of the Federated States of Micronesia; His Excellency Kessai Note, President of the Republic of the Marshall Islands; and other interested parties. We will also make copies available to others upon request.

If you or your staff have any questions about this report, please call me at (202) 512-3841. Key contributors to this report were A. Don Cowan, Jessica Martinson, Barbara Scharl, and Glen Trochelman.



(Ms.) Gary L. Jones
Associate Director, Energy,
Resources, and Science Issues

Financial Provisions of the Compact of Free Association

The Compact of Free Association contains a number of financial provisions, many of which will expire on October 1, 2001, its 15th year.¹ These provisions involve direct financial payments for such items as economic self-sufficiency, U.S. military Civic Action Teams, energy production, operation and maintenance of communication facilities, and other assistance, such as surveillance and enforcement of maritime zones, health and medical assistance, and post-secondary education. The following provides additional information on the financial provisions in title II, articles I and II of the Compact.

Section 211— Economic Self-sufficiency

This section provides direct grant payments to the Federated States of Micronesia and the Republic of Marshall Islands to advance the economic self-sufficiency of their people.² Of these funds, both the Federated States of Micronesia and the Marshall Islands must dedicate an average over 15 years of no less than 40 percent to the capital account. This account is to be used for purposes that include funding construction or major repair of capital infrastructure or for financing public and private sector projects identified in the 5-year economic development plan. Up to 60 percent of section 211 funds may be used for general government operations. Table 6 shows the assistance to be provided during the 15 years this provision is in effect.

Table 6: Section 211 Annual Economic Self-Sufficiency Funding Provided by the United States

Dollars in millions	The Federated States of	
	Micronesia	Marshall Islands
First 5 Years	\$60	\$26.1
Second 5 Years	\$51	\$22.1
Last 5 Years	\$40	\$19.1

¹The Compact allows for an extension of not more than 2 years if negotiations have not been concluded by the end of the 15th year. Certain affected financial assistance provisions would continue during the extension at a level that is the average of the annual amounts granted during the first 15 years, adjusted for inflation.

²A portion of the funds provided to the Republic of the Marshall Islands (\$7.1 million annually adjusted for inflation) is related to the U.S. government's use of Kwajalein Atoll.

Section 212—Civic Action Teams

The Compact provides the Federated States of Micronesia \$1 million annually for 14 years, commencing on the first anniversary of the Compact, to defray costs associated with U.S. military Civic Action Teams.³ Civic Action Teams are comprised of such members as engineers, construction specialists, equipment operators, carpenters, masons, welders, mechanics, and plumbers. Similar funds were not provided to the Marshall Islands.

Section 213—Yap and Kwajalein Impact Funding

This section of the Compact provides \$1.9 million annually, not adjusted for inflation, to the Marshall Islands specifically to take into account the impact of the activities of the United States in the Kwajalein Atoll area. It also provided \$160,000 in the first year of the Compact to the Federated States of Micronesia specifically to take into account the impact of the activities of the United States in the State of Yap.

Section 214—Energy Production

This section provides the Federated States of Micronesia \$3 million and the Marshall Islands \$2 million annually for 14 years, commencing on the first anniversary of the Compact, to help achieve increased self-sufficiency in energy production.

Section 215— Communications

This section provides the Federated States of Micronesia \$600,000 and the Marshall Islands \$300,000 annually for 15 years, commencing on the effective date of the Compact, for the operation and maintenance of communications systems. In addition, section 215 provided one-time payments of \$6 million to the Federated States of Micronesia and \$3 million to the Marshall Islands to acquire communication hardware during the first year.

Section 216—Other Assistance

This section provides \$5.369 million annually for 15 years, commencing on the effective date of the Compact, for a variety of purposes. These funds are to be split between the Federated States of Micronesia and the Marshall Islands in accordance with a distribution agreement between them. Table 7 shows the purposes and annual payments set forth in the Compact.

³ The Compact provides that these payments begin on the first anniversary of the Compact and continue for 14 years.

Table 7: Section 216 Direct Annual Payments

Purpose of assistance	Annual payments
Surveillance and enforcement of maritime zones	\$890,000
Heath and medical programs	\$1.791 million
Post secondary education support	\$2.687 million

The Compact also provided for a one-time payment of \$1.333 million to help begin the surveillance and enforcement of maritime zones.

Section 217—Inflation Adjustment

This section provides inflation adjustments for each fiscal year for payments under section 211, 212, 214, and 215 as well as for extension payments required under section 231. This adjustment is based on the percent which equals two thirds of the percentage change in the U.S. Gross National Product Implicit Price Deflator, or 7 percent, whichever is less in any one year, using the beginning of the fiscal year 1981 as the base. The Department of the Interior estimates inflation adjustments provided over the life of the Compact will be about \$485 million.

Section 221b— Education and Heath Block Grants

This section provides the Federated States of Micronesia and the Republic of the Marshall Islands \$10 million annually to be used for education and heath care. Of this amount, the Federated States of Micronesia receives \$7 million, while the Marshall Islands receives \$3 million.

Agency Assistance Provided to the Federated States of Micronesia and the Marshall Islands

We identified 19 U.S. federal agencies that have provided assistance to the Federated States of Micronesia and the Marshall Islands. This assistance came in the form of direct payments, grants, loans, indirect assistance, and guaranteed federal services.

Department of Agriculture

The Department of Agriculture (USDA) provided assistance to the Federated States of Micronesia and the Marshall Islands through the Food and Nutrition Service (FNS); Rural Housing Service; Rural Utilities Service; Forest Service; Cooperative State Research, Education, and Extension Service; and Natural Resources Conservation Service. During fiscal years 1987 through 1999, USDA provided grants, loans, and indirect assistance of over \$81.8 million to the Federated States of Micronesia and over \$50.3 million to the Marshall Islands, as shown in tables 8 and 9. FNS provided food assistance, transitional assistance, bonus commodities, and nuclear compensation. Rural Housing Service funding was provided for community programs and home repair and Rural Utilities Service assistance was provided for water and waste systems and telecommunications improvement. Examples of assistance provided by the Forest Service include research grants, technical assistance, fire and forestry assistance, and fire fighting equipment. Examples of assistance provided by the Cooperative State Research, Education, and Extension Service include grants to reduce foodborne illness and waterborne disease. The Natural Resources Conservation Service provided financial assistance to the Federated States of Micronesia and technical assistance to both the Federated States of Micronesia and the Marshall Islands.

Table 8: USDA Assistance to the Federated States of Micronesia, Fiscal Years 1987 Through 1999

Dollars in thousands	
	Amount
Grants	
Home repair and preservation	\$4,778
Water and wastewater systems	1,843
Forestry and fire assistance	1,065
Transitional assistance	161
Other	318
Total^a	\$8,166

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	Amount
Loans	
Telecommunications corporation	\$39,960
Home repair	16,039
Single-family housing	4,156
Loan servicing, nonsubsidized	964
School improvements	248
Community facilities loan	248
Total	\$61,616
Indirect assistance	
Food- disaster assistance	\$9,637
Estimate: technical assistance	1,779
Estimate: program management	483
Fire trucks and engines	144
Forestry- technical assistance, formal training, or meeting	50
Total^a	\$12,092
Total Federated States of Micronesia assistance^b	\$81,873

^a Total does not add due to rounding.

^b Total does not include approximately \$18 million of assistance provided through the Cooperative State Research, Education, and Extension Service to the Federated States of Micronesia, the Marshall Islands, and the Republic of Palau. The amount of funding provided to the individual countries was not available. Total does not add due to rounding.

Source: Prepared by GAO from USDA's data.

Table 9: USDA's Assistance to the Marshall Islands, Fiscal Year 1987 Through 1999

Dollars in thousands

	Amount
Grants	
Home repair and preservation	\$1,265
Transitional assistance	459
Fire and forestry assistance	280
Reducing waterborne disease	24
Total	\$2,028
Loans	
Telecommunication authority	\$22,799
Marshall's Energy Company, Inc.	12,500

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	Amount
Home repair	2,067
Total	\$37,366
Indirect assistance	
Food disaster assistance	\$6,365
Estimate: program management	230
Forestry- technical assistance, formal training, or meetings	106
Fire engines	84
Bonus commodities	76
Estimate: technical assistance	63
Total	\$6,924
Compensation	
Nuclear testing compensation	\$4,067
Total Marshall Islands assistance^a	\$50,386

^a Total does not include approximately \$18 million of assistance provided through the Cooperative State Research, Education, and Extension Service to the Federated States of Micronesia, the Marshall Islands, and the Republic of Palau. The amount of funding provided to the individual countries was not available. Total does not add due to rounding.

Source: Prepared by GAO from USDA's data.

Department of Commerce/National Oceanic Atmospheric Administration

The National Oceanic Atmospheric Administration (NOAA), which oversees the National Weather Service, established upper air weather observation offices in the Federated States of Micronesia and the Marshall Islands in the mid-1950s. Since the implementation of the Compact, funds to support the weather offices were transferred to Interior, which now reimburses NOAA (see tables 10 and 11). The reimbursements include costs incurred by the Federated States of Micronesia and the Marshall Islands and the National Weather Service/Pacific Region to manage, supervise, operate, and maintain the offices. In addition to weather service support, NOAA provided a grant to the Federated States of Micronesia for snail reseedling that took place in the outer islands of Yap state.

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Table 10: Department of Commerce's Assistance to the Federated States of Micronesia, Fiscal Year 1987 Through 1999

Dollars in thousands	
	Amount
Grants	
Snail reseedling in the outer islands of Yap state	\$14
Guaranteed federal service	
Weather service support	\$28,901
Total Federated States of Micronesia assistance	\$28,915

Table 11: Department of Commerce's Assistance to the Marshall Islands, Fiscal Year 1987 Through 1999

Dollars in thousands	
	Amount
Guaranteed federal service	
Weather service support	\$10,621

Source: Prepared by GAO from the Department of Commerce's data.

Department of Defense

The Department of Defense provided indirect assistance to the Federated States of Micronesia through U.S. military Civic Action Teams that assisted in national development projects. Costs for providing the assistance included per diem and travel, equipment, facilities, and maintenance. During fiscal years 1995 through 1999, the Department of Defense spent approximately \$10.6 million to provide Civic Actions Teams to the Federated States of Micronesia, as shown in table 12. The Department provided teams prior to fiscal year 1995, but according to an agency official, records containing cost information for that period were destroyed in a hurricane. The Department did not report any assistance provided to the Marshall Islands in response to our request.

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**Table 12: Department of Defense's Assistance to the Federated States of
Micronesia, Fiscal Year 1995 Through 1999**

Dollars in thousands	
	Amount
Indirect assistance	
Civic Action Teams	\$10,557

Source: Prepared by GAO from the Department of Defense's data.

Department of Education

The Department of Education provided assistance to the Federated States of Micronesia and the Marshall Islands during fiscal years 1987 through 1999. During this period, Education provided over \$78.9 million to the Federated States of Micronesia and over \$31.9 million to the Marshall Islands in both grants and indirect assistance, as shown in tables 13 and 14. The Department of Education provided grant funding for a variety of programs, including adult education, honors scholarships, client assistance, special education, vocational education, federal work study, and Pell Grants.¹ In addition, technical assistance and research, provided by Pacific Resources for Education and Learning, was funded by the Department of Education.

**Table 13: Department of Education's Assistance to the Federated States of
Micronesia, Fiscal Years 1987 Through 1999**

Dollars in thousands	
	Amount
Grants	
Pell Grants ^a	\$19,282
Special education grants to states and preschool grants	23,729
Chapter 1/title I grants to local educational agencies	9,058
Freely Associated States- education grant program	8,345
School improvement state grants	3,510

¹ A Pell Grant is a federal nonreimbursable grant awarded to undergraduate students who have not earned a bachelor or professional degree.

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	Amount
Vocational education	3,235
Territorial teacher training	1,367
Vocational rehabilitation state grants	1,350
Federal work-study ^b	1,122
Bilingual education	1,034
Goals 2000	969
Adult education	666
Supplemental educational opportunity grants ^c	486
Byrd honors scholarships	182
Client assistance	30
Total	\$74,365
Indirect assistance	
Technical assistance and research	\$4,589
Total Federated States of Micronesia assistance	\$78,954

^a The Department of Education provided an additional \$6 million for Pell Grants to the Federated States of Micronesia and the Marshall Islands from fiscal year 1987 through 1991. The Department was not able to report the amount by country. According to Education, these costs were reimbursed by Interior.

^b Education provided an additional \$2 million for federal work study to the Federated States of Micronesia and the Marshall Islands from fiscal years 1987 through 1991. The Department was not able to report the amount by country. According to Education, the costs were reimbursed by Interior.

^c The Department of Education provided an additional \$2.1 million for supplemental educational opportunity grants to the Federated States of Micronesia and the Marshall Islands between fiscal years 1987 through 1991. The Department was not able to report the amount by country. According to Education, the costs were reimbursed by Interior.

Source: Prepared by GAO from the Department of Education's data.

Table 14: Department of Education's Assistance to the Marshall Islands, Fiscal Years 1987 Through 1999

Dollars in thousands

	Amount
Grants	
Pell Grants ^a	\$6,562
Special education grants to states and preschool grants	9,484
Chapter 1/title I grants to local educational agencies	3,513
Freely Associated States grant program	2,424
School improvement state grants	1,287

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	Amount
Territorial teacher training	839
Adult education	774
Vocational education	715
Goals 2000	487
Upward Bound	381
Federal work study ^b	350
Vocational rehabilitation state grants	161
Supplemental educational opportunity grants ^c	149
Byrd honors scholarship	117
Bilingual education	75
Client assistance	17
Total	\$27,335
Indirect assistance	
Technical assistance and research	\$4,589
Total Marshall Islands assistance	\$31,924

^a The Department of Education provided an additional \$6 million for Pell Grants to the Federated States of Micronesia and the Marshall Islands from fiscal year 1987 through 1991. The Department was not able to report the amount by country. According to Education, these costs were reimbursed by Interior.

^b Education provided an additional \$2 million for federal work study to the Federated States of Micronesia and the Marshall Islands from fiscal years 1987 through 1991. The Department was not able to report the amount by country. According to Education, the costs were reimbursed by Interior.

^c The Department of Education provided an additional \$2.1 million for supplemental educational opportunity grants to the Federated States of Micronesia and the Marshall Islands between fiscal years 1987 through 1991. The Department was not able to report the amount by country. According to Education, the costs were reimbursed by Interior.

Source: Prepared by GAO from the Department of Education's data.

Department of Energy

The Department of Energy (DOE) provided indirect assistance to the Marshall Islands in the form of medical care and environmental monitoring and research. DOE provided over \$75 million to the Marshall Islands from fiscal year 1987 through 1999, as shown in table 15. The assistance included mandated health care to approximately 230 people, environmental monitoring services, and operational support, such as procuring equipment and transporting individuals. DOE officials said that they did not provide assistance to the Federated States of Micronesia during this time period.

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Table 15: DOE's Assistance to the Marshall Islands, Fiscal Years 1987 Through 1999

Dollars in thousands	
	Amount
Indirect assistance	
Special medical care and radiological monitoring	\$73,639
Medical and environmental monitoring equipment	1,786
Total	\$75,425

Source: Prepared by GAO from DOE's data.

Environmental Protection Agency

The Environmental Protection Agency (EPA) provided direct grant assistance and indirect assistance to both the Federated States of Micronesia and the Marshall Islands during the Compact time period, totaling about \$5.7 million (see tables 16 and 17). EPA provided grants for wastewater construction and environmental program assistance to the Federated States of Micronesia and the Marshall Islands during a 3-year phaseout beginning with the implementation of the Compact in 1987. In addition to grants, EPA provided cleanup of hazardous chemical sites in the Marshall Islands during the early 1990s at an approximate cost of \$750,000.

Furthermore, EPA's region IX (in San Francisco) provided, and continues to provide, ad hoc technical assistance to citizens of the Federated States of Micronesia and the Marshall Islands in response to requests for information received via telephone or e-mail. EPA provided additional indirect assistance through a 1994 preliminary assessment of polychlorinated biphenyl (PCB) contamination in the Federated States of Micronesia and the preparation of a conceptual solid waste management plan in the Marshall Islands in 1996. According to an agency official, the costs of performing the PCB assessment and the waste management plan were relatively small, consisting of the travel cost and 3 weeks time for three individuals.

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Table 16: EPA's Assistance to the Federated States of Micronesia, Fiscal Years 1987 Through 1999

Dollars in thousands	
	Amount
Grants	
Construction wastewater system	\$3,328
Consolidated environmental program	550
Total	\$3,878

Table 17: EPA's Assistance to the Marshall Islands, Fiscal Years 1987 Through 1999

Dollars in thousands	
	Amount
Grants	
Construction wastewater system	\$871
Consolidated environmental program	243
Total	\$1,114
Indirect assistance	
Cleanup of PCB contaminated sites	\$750
Total Marshall Islands assistance	\$1,864

Source: Prepared by GAO from EPA's data.

Federal Emergency Management Agency

The Federal Emergency Management Agency (FEMA) provided assistance to the Federated States of Micronesia and the Marshall Islands in the form of disaster assistance, loans, and performance partnership agreements. During fiscal years 1987 through 1999, FEMA provided over \$45.2 million to the Federated States of Micronesia and over \$26.0 million to the Marshall Islands, as shown in tables 18 and 19. Disaster assistance grants were provided on a cost-share basis, with the foreign government responsible for providing a percentage of the funding. When the foreign government is unable to provide its share of the funding, FEMA may provide loans to cover that share. The amount of assistance provided in a given year was largely dependent on extreme weather events that may have taken place. FEMA also provides annual grants not to exceed \$50,000 to cover up to 50

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percent of the cost of improving, maintaining, and updating disaster assistance plans.

Table 18: FEMA's Assistance to the Federated States of Micronesia, Fiscal Years 1987 Through 1999

Dollars in thousands	
	Amount
Grants	
Typhoons- public assistance, hazard mitigation, and individuals and families	\$18,766
Severe drought- public assistance and hazard mitigation	1,613
Disaster preparedness improvement	338
Total^a	\$20,716
Loans	
Typhoon- public assistance and individuals and families	\$1,859
Other direct assistance	
Temporary housing payments	\$15,600
Indirect assistance	
Typhoons and severe drought- mission assignments, technical assistance, and inspection services	\$7,006
Total Federated States of Micronesia assistance^a	\$45,182

^a Total does not add due to rounding.

Table 19: FEMA's Assistance to the Marshall Islands, Fiscal Years 1987 Through 1999

Dollars in thousands	
	Amount
Grants	
Severe drought- public assistance and hazard mitigation	\$7,576
Typhoons- public assistance, hazard mitigation, and individuals and families	3,001
Tropical storms- public assistance, hazard mitigation, and individuals and families	2,867
High surf and wave action- public assistance and hazard mitigation	1,906

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	Amount
Disaster preparedness improvement	\$290
Fire- public assistance	178
Total	\$15,818
Loans	
Typhoon and tropical storm- public assistance and individuals and families	\$699
Other direct assistance	
Temporary housing payments	\$1,889
Indirect assistance	
Typhoons, tropical storms, high surf and wave action, and severe drought- mission assignments, technical assistance, and inspection services	\$7,635
Total Marshall Islands assistance	\$26,041

Source: Prepared by GAO from FEMA's data.

Department of Health and Human Services

The Department of Health and Human Services (HHS) provided program and technical assistance to the Federated States of Micronesia and the Marshall Islands during fiscal years 1987 through 1999. A variety of agencies within HHS provided the assistance, including the Centers for Disease Control and Prevention, the Administration for Children and Families, the Health Resources and Services Administration, and the Substance Abuse and Mental Health Services Administration. The Social Security Association (SSA) also provided assistance before it became an independent agency in 1995, however because of data availability problems for this period, the agency reported only partial information for the Federated States of Micronesia and no data for the Marshall Islands. During fiscal years 1987 through 1999, the HHS provided over \$62.1 million to the Federated States of Micronesia and over \$34.5 million to the Marshall Islands, as shown in tables 20 and 21. HHS provided funding for a variety of programs including Head Start, family planning, childhood immunizations, and tuberculosis control.

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Table 20: HHS' Assistance to the Federated States of Micronesia, Fiscal Years 1987 Through 1999

Dollars in thousands	
	Amount
Grants	
Head Start	\$12,763
Social security- disability, retirement, and survivors insurance	12,735
Maternal and child health programs and services	7,048
Supplemental security income	6,742
Childhood immunization grants	5,821
Substance abuse and mental health services	5,487
Preventive health and health services	2,649
Community health centers and services	1,920
Programs and services for aging	1,545
Family planning services	1,260
Community services and youth activity program	992
Tuberculosis control	911
HIV/AIDS surveillance and prevention activities	763
Developmental disabilities- basic support and advocacy	398
Diabetes control program	305
Other	785
Total	\$62,124

Table 21: HHS' Assistance to the Marshall Islands, Fiscal Years 1987 Through 1999

Dollars in thousands	
	Amount
Grants	
Head Start	\$17,626
Maternal and child health programs and services	3,869
Community health centers and services and youth activity program	3,060
Substance abuse and mental health services	2,386
Preventive health and health services	1,751
Childhood immunization grants	1,730
HIV/AIDS surveillance and prevention activities	998
Family planning services	787

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Programs and services for aging	621
CDC - Investigations Technical Assistance	551
Developmental disabilities- basic support and advocacy	469
Tuberculosis control	357
Diabetes control program	227
Other	139
Total	\$34,572

Source: Prepared by GAO from HHS' data.

Department of Housing and Urban Development

The Department of Housing and Urban Development (HUD) provided assistance for infrastructure and utility development to the Federated States of Micronesia and the Marshall Islands during a 3-year phase-out period that began with the implementation of the Compact in fiscal year 1987. During fiscal years 1987 through 1989, HUD provided over \$1.2 million to the Federated States of Micronesia and over \$275,000 to the Marshall Islands, as shown in tables 22 and 23. The assistance was provided for a variety of purposes, including constructing water systems, renovating housing, and building recreational facilities.

Table 22: HUD's Assistance to the Federated States of Micronesia, Fiscal Years 1987 Through 1989

Dollars in thousands	
	Amount
Grants	
Infrastructure and utility development	\$1,256

Table 23: HUD's Assistance to the Marshall Islands, Fiscal Years 1987 Through 1989

Dollars in thousands	
	Amount
Grants	
Infrastructure and utility development	\$275

Source: Prepared by GAO from HUD's data.

Institute of Museum and Library Services

The Institute of Museum and Library Services provided grants for library services to the Federated States of Micronesia and the Marshall Islands in fiscal years 1998 and 1999. The Institute provided about \$111,000 to the Federated States of Micronesia and about \$94,000 to the Marshall Islands during fiscal years 1998 and 1999, as shown in tables 24 and 25. The Institute uses an application and review process administered by the Pacific Resources for Education and Learning to allocate the funding. The Federated States of Micronesia, the Marshall Islands, Palau, Guam, American Samoa, and the Commonwealth of the Northern Marianas Islands all compete for the funds derived from the allotments of the three Freely Associated States.

Table 24: Institute of Museum and Library Services Assistance to the Federated States of Micronesia, Fiscal Years 1998 and 1999

Dollars in thousands

	Amount
Grants	
Library services	\$111

Table 25: Institute of Museum and Library Services Assistance to the Marshall Islands, Fiscal Years 1998 and 1999

Dollars in thousands

	Amount
Grants	
Library services	\$94

Source: Prepared by GAO from the Institute of Museum and Library Services' data.

Department of the Interior

The Department of the Interior funded a majority of the assistance provided to the Federated States of Micronesia and the Marshall Islands—approximately 77 percent of the total financial assistance provided to the Federated States of Micronesia and approximately 78 percent to the Marshall Islands. During fiscal years 1987 through 1999, the Interior provided approximately \$1.2 billion to the Federated States of Micronesia and about \$864.2 million to the Marshall Islands, as shown in tables 26 and

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27. Interior is required by the Compact to provide specified dollar amounts in direct payments for various development efforts, such as communications, marine surveillance, and energy production. In addition to direct payments, Interior provided grant assistance for a variety of purposes, including providing advisors and consultants, performing studies and surveys, and conducting workshops and conferences.

Table 26: Interior's Assistance to the Federated States of Micronesia, Fiscal Years 1987 Through 1999

Dollars in thousands	Amount
Direct payments	
Current	\$405,000
Capital	270,000
Inflation	279,171
Energy production	36,000
Communication O&M	7,800
Communication hardware	6,000
Yap impact	160
Tax and trade compensation	20,000
Maritime surveillance/med. ref/scholarship	48,354
Health and education block grant	91,000
Other construction	9,926
Civic action teams	12,000
Total	\$1,185,411
Grants	
Advisors/consultants	\$766
Studies/survey/needs assessment	589
Comprehensive education needs	379
Newsletters/quarterlys	368
Training, workshops, conferences	305
Multiagency, antifraud project	141
National health care and health related activities	134

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	Amount
Pohnpei utilities corporation	110
Accounting/computer interns and staff	91
Office equipment	68
Other	296
Total	\$3,247
Total Federated States of Micronesia assistance	\$1,188,658

Table 27: Interior's Assistance to the Marshall Islands, Fiscal Years 1987 Through 1999

Dollars in thousands

	Amount
Direct Payments	
Current	\$151,525
Capital	146,775
Inflation	125,460
Kwajalein impact	24,700
Energy production	24,000
Communication O&M	3,900
Communication hardware	3,000
Tax and trade compensation	10,000
Maritime surveillance/med. ref/scholarship	22,767
Health and education block grant	39,000
Other construction	6,888
Nuclear compensation	302,940
Total	\$860,955
Grants	
Rongelap resettlement and professional services	\$1,025
Training, workshops, conferences	345
Advisors, consultants	341
Historic preservation/tourism	312
Municipal management and administration improvement	198
Water monitoring	124
Canoes	113
Study, survey, census	108
Privatization of public works	100

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	Amount
Reverse osmosis system for Ejit island	85
Youth to Youth in Health	79
Investment development fund	70
Enewetak transshipment and fishing base	51
Other	295
Total	\$3,247
Total Marshall Islands assistance	\$864,202

Source: Prepared by GAO from Interior's data.

Department of Labor

The Department of Labor provided assistance to the Federated States of Micronesia and the Marshall Islands during fiscal years 1987 through 1999. During that time, Labor provided over \$18.5 million to the Federated States of Micronesia and over \$10.5 million to the Marshall Islands in grants for adult and youth training programs, summer youth programs, dislocated workers, and older Americans, as shown in tables 28 and 29.

Table 28: Labor's Assistance to the Federated States of Micronesia, Fiscal Years 1987 Through 1999

Dollars in thousands	
	Amount
Grants	
JTPA II-A, Adult Training	\$10,890
JTPA III, Dislocated Workers (formula and discretionary)	5,355
JTPA-C, Youth Training	1,158
JTPA II-B, Summer Youth	633
Older Americans	504
Total^a	\$18,539

^aTotal does not add due to rounding.

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Table 29: Labor's Assistance to the Marshall Islands, Fiscal Years 1987 Through 1999

Dollars in thousands	
	Amount
Grants	
JTPA II-A, Adult Training	\$5,465
JTPA III, Dislocated Workers (formula and discretionary)	3,929
JTPA-C, Youth Training	695
JTPA II-B, Summer Youth	267
Older Americans	191
Total	\$10,547

Source: Prepared by GAO from Labor's data.

Legal Services Corporation

Legal Services Corporation provided assistance to the Federated States of Micronesia and the Marshall Islands during fiscal years 1987 through 1999. During that time, the Corporation provided about \$16 million in grants for legal services to individuals living below the poverty level in the Federated States of Micronesia, the Marshall Islands, the Commonwealth of the Northern Marianas Islands, and the Republic of Palau. While Legal Services Corporation was able to identify the total amount of funding provided, it was not able to identify the amounts that went to the individual countries of the area.

Table 30: Legal Services Corporation Assistance, Fiscal Years 1987 Through 1999

Dollars in thousands	
	Amount
Legal assistance	\$15,997

Source: Prepared by GAO from Legal Services Corporation data.

National Science Foundation

The National Science Foundation (NSF) provided grant assistance to the Federated States of Micronesia during fiscal years 1987 through 1999. A total of two grants amounting to about \$100,000 were provided to the

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College of Micronesia for Internet access of the four branch campuses (see table 31).

Table 31: NSF's Assistance to the Federated States of Micronesia, Fiscal Years 1987 Through 1999

Dollars in thousands	
	Amount
Grants	
Internet access	\$100

Source: Prepared by GAO from NSF's data.

U.S. Postal Service

The U.S. Postal Service provides mail service in the Federated States of the Federated States of Micronesia and the Republic of the Marshall Islands. The Postal Service spent almost \$5.9 million in transportation, administration, and technical assistance costs during fiscal years 1987 through 1998, as seen in tables 32 and 33. The Postal Service was reimbursed for the cost of providing the mail service through the Department of the Interior. The Postal Service was not able to provide data for fiscal year 1999 because the billed costs to the Department of the Interior are currently undergoing approval.

Table 32: U.S. Postal Service's Assistance to the Federated States of Micronesia, Fiscal Years 1987 Through 1998

Dollars in thousands	
	Amount
Guaranteed federal service	
Postal services	\$4,398

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Table 33: U.S. Postal Service's Assistance to the Marshall Islands, Fiscal Years 1987 Through 1998

Dollars in thousands

	Amount
Guaranteed federal service	
Postal services	\$1,466

Source: Prepared by GAO from the Postal Service's data.

Small Business Administration

During fiscal years 1987 through 1999, the Small Business Administration (SBA) provided 171 loans, totaling about \$1.9 million to the Federated States of Micronesia, and 242 loans, totaling about \$1.6 million to the Marshall Islands, as shown in tables 34 and 35. Most of the loans were provided as subsidized direct physical disaster loans for disaster victims to repair, replace, or rehabilitate property damaged or destroyed by a declared disaster. Loans were made directly to the victims, which included individual homeowners, renters, businesses of all sizes, and nonprofit organizations. In addition, SBA provided a small number of economic injury disaster loans to small businesses without credit available elsewhere. Generally, loans were made at an interest rate of 4 percent or lower, with a maximum 30-year term.

Table 34: SBA's Assistance to the Federated States of Micronesia, Fiscal Years 1987 Through 1999

Dollars in thousands

	Amount
Loans	
Physical and economic injury disaster loans	\$1,878

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Table 35: SBA's Assistance to the Marshall Islands, Fiscal Years 1987 Through 1999

Dollars in thousands

	Amount
Loans	
Physical disaster loans	\$1,621

Source: Prepared by GAO from SBA's data.

Social Security Administration

The Social Security Administration (SSA) provided old age, survivors, and disability insurance benefits to individuals in the Federated States of Micronesia and the Marshall Islands since SSA separated from HHS to become an independent agency in 1995. Some of the beneficiaries may include U.S. citizens living in the Federated States of Micronesia and the Marshall Islands. The SSA provided over \$240,000 to the Federated States of Micronesia and over \$1.1 million to the Marshall Islands during fiscal years 1998 and 1999, as shown in tables 36 and 37. These amounts do not include assistance payments for 1 month in fiscal year 1998 and 2 months in fiscal year 1999 because SSA could not identify the amounts provided during those months. In addition, SSA could not provide figures for fiscal years 1995 through 1997.

Table 36: SSA's Assistance to the Federated States of Micronesia, Fiscal Years 1998 and 1999

Dollars in thousands

	Amount
Grants	
Old age, survivors, and disability insurance	\$240

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Table 37: SSA's Assistance to the Marshall Islands, Fiscal Years 1998 and 1999

Dollars in thousands	
	Amount
Grants	
Old age, survivors, and disability insurance	\$1,129

Source: Prepared by GAO from SSA's data.

Department of State

The Department of State has provided the Foreign Service Institute diplomatic training for the Federated States of Micronesia and the Marshall Islands during fiscal years 1987 through 1999. Interior reimbursed the State Department for the assistance provided—approximately \$1.1 million for each Island government, as shown in tables 38 and 39. In total, 54 students from the Federated States of Micronesia and 53 students from the Marshall Islands have attended the training.

Table 38: Department of State Assistance to the Federated States of Micronesia, Fiscal Years 1987 Through 1999

Dollars in thousands	
	Amount
Guaranteed federal service	
Foreign service training	\$1,079

Table 39: Department of State Assistance to the Marshall Islands, Fiscal Years 1987 Through 1999

Dollars in thousands	
	Amount
Guaranteed federal service	
Foreign service training	\$1,097

Source: Prepared by GAO from Department of State's data.

Department of Transportation

The Department of Transportation's Federal Aviation Administration (FAA) provided technical assistance to the Federated States of Micronesia and the Marshall Islands during fiscal years 1987 through 1999 at a total cost of about \$4.8 million for the Federated States of Micronesia and about \$0.9 million for the Marshall Islands, as shown in tables 40 and 41. Some of the assistance was provided for the upgrade, modernization, and continuous preventative maintenance and emergency repair of navigational aids and VHF radio communications equipment, installation and maintenance of Aeronautical Fixed Telecommunications flight data and weather reporting systems, performance of flight inspections, control of enroute air traffic, on-site aviation security training, and flight standards training. FAA personnel or their contractors performed all assistance, and no funds were provided directly to either government to pay for any project or program. Interior reimbursed FAA for the cost of providing the assistance. The Coast Guard has been unable to acquire records of its involvement in either the Federated States of Micronesia or the Marshall Islands.

Table 40: Department of Transportation's Assistance to the Federated States of Micronesia, Fiscal Years 1987 Through 1999

Dollars in thousands	
	Amount
Guaranteed federal service	
Technical assistance	\$4,765

Table 41: FAA's Assistance to the Marshall Islands, Fiscal Years 1987 Through 1999

Dollars in thousands	
	Amount
Guaranteed federal service	
Technical assistance	\$881

Source: Prepared by GAO from the Department of Transportation's data.

Comments From the Department of the Interior

Note: GAO's comments supplementing those in the report text appear at the end of this appendix.



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

APR 20 2000

Ms. Gary L. Jones
Associate Director, Energy,
Resources, and Sciences Issues
General Accounting Office
Washington, D.C. 20548

Dear Ms. Jones:

Thank you for giving us the opportunity to respond to your draft report entitled, "Foreign Assistance, Better Accountability Needed Over U.S. Assistance to Micronesia and the Marshall Islands."

The General Accounting Office (GAO) has undertaken a very useful, though difficult and complicated task in compiling this report. The decentralized nature of the Federal government, the decentralized system of providing Federal grant programs, the lack of centralized Federal financial reporting, and the differences between grantor agency and grantee accounting make aggregating coherent data very difficult. The complicated nature of the Compact of Free Association, its amendments and subsidiary agreements is also confusing.

That said, we believe that GAO has a misconception about the role, responsibilities and authority of the Department as laid out under law. While we have a coordinating and monitoring role with respect to grants from other agencies, we have no authority to affect the manner, amounts and use to which these monies may be put. Those responsibilities are assigned to the other agencies under their statutes and regulations. There also seems to be some confusion regarding the nature of data examined. Moreover, the report needs to be more objective about GAO's own role and responsibilities under the Compact of Free Association Act of 1985. Finally, we note since the implementation of the Compact, none of the Single Audit Act reports -- reports that by law meet the standards of the Comptroller General and have been reviewed by the Inspectors General -- have ever indicated the FAS have failed to meet the requirement of spending an average of 40% of Section 211 funding for capital account purposes.

GAO Misunderstands the Nature of the Department of the Interior's Role Under Law:

The report has a fundamental misconception of the role of the Department with respect to the activities of other Federal agencies. The report suggests that the Department is responsible for the disposition of monies provided by the federal assistance programs of other agencies. But, in fact, while the Department is required to coordinate and monitor these programs, Title 48 does not give us a material role in affecting the amounts granted or the uses to which they are put, because the entire system is, and has been designed to be decentralized. Moreover, the report states that "(i)n

See comment 1.

See comment 2.

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1987, the Secretary of the Interior determined that the most effective method for U.S. federal agencies to provide continuing federal programs to the Freely Associated States was to create a direct grant relationship between the other agencies and the Island governments." However, the Secretary had no such discretion under the law. Public Law 99-396 had by 1987 amended Section 105(b)(2) to read as follows: "*Except for programs or services provided by or through other federal agencies or officials to the Federated States of Micronesia or the Republic of the Marshall Islands, or for which residents thereof are eligible pursuant to the Compact...., appropriations made pursuant to the Compact ...may be made only to the Secretary of the Interior.*" The Secretary could not have made a determination on the most effective method to provide Federal program assistance because the law had already established the direct grant relationship and because the appropriations for those programs had not been made to him.

See comment 1.

Further, each Federal program operating in the FAS is specifically authorized in law with reference to Section 224 of the Compact. Given that the eligibility of the FAS to receive a specific program is created by law, and that the program itself is governed by the rules and regulations of another agency (i.e., the grant-making agency), the Secretary of the Interior cannot practically affect the timing, purpose or amount of any grant award.

See comment 3.

Interior's Coordination and Monitoring Have Met Operational Requirements:

The Department of the Interior participates in the Interagency Group (IAG) which includes grantor agencies, and maintains working relationships with the departments and agencies operating in the FAS. The Department has a field representative in the FAS who spends most of his time on Federal program issues. We have provided assistance, including financial support, to other agencies when necessary. We have worked jointly with such agencies as the Public Health Service to better serve health agencies in the FAS. In the view of the Department, these activities fulfill its role in coordination and monitoring of grants made by other agencies.

See comment 4.

Responsibility for Collecting Financial Information Lies Elsewhere:

The Secretary lacks jurisdiction over other Federal programs as noted above. The Compact legislation does, however, authorize the General Accounting Office to audit all grants and any other assistance provided by the United States.

See comment 5.

Report Fails to Give Credence to Reports Under the Single Audit Act

Following the practice of all Federal agencies, the Department of the Interior also uses the annual Single Audits to monitor its programs. The Single Audit Act and its amendments provide the Federal government with one of its principal grant monitoring tools. All grantees receiving a threshold level of Federal funds are required to obtain an annual audit. The audit findings are provided to all affected grantor agencies. The Single Audits report on and provide opinions on the annual financial statements of the FAS governments, on their compliance with Federal laws and regulations, and on the adequacy of their internal controls. The audits identify questionable expenses and financial practices, and violations of relevant Federal laws and regulations. As the cognizant audit agency for the FAS, the Department resolves all the issues related to the Compact and all general cross-cutting

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issues that affect Federal grants. However, the Department is not responsible for resolving other agencies' specific grant issues or questioned costs.

Our review of the Single Audits has been a significant element of our monitoring practices. The Department uses the audits to identify technical assistance needs in the FAS which we meet with our technical assistance programs. As a result, the quality of financial management in the FAS has been greatly improved.

Significantly, since the implementation of the Compact, none of the compliance reports -- reports that by law meet the standards of the Comptroller General and have been reviewed by the Inspectors General -- have not indicated the FAS have failed to meet the requirement of spending an average of 40% of Section 211 funding for capital account purposes.

See comment 6.

Report Misunderstands the Nature of Accounting Information Provided:

We find the report's title and statements such as "Interior data on assistance provided to the Islands is not accurate nor reliable" to reflect a misunderstanding of the Department's role in the Compact and Federal accounting and reporting requirements.

Much of the commentary on this subject in the audit report results from the authors' misunderstanding of the nature of the information in a table published in a "green book" budget justification to Congress (Attachment A). The table, which is not part of OMB A-11 requirements and was not requested by the Appropriations Committees, was included only as recently as 1996 to give Congressional committees a snapshot of Compact appropriations since 1987.

The table is not part of the official accounting record of the Department of the Interior despite its title, "Estimated Payments 1987-2001". Perhaps it would have caused less confusion to have titled it, "estimated appropriations allocations". We accept that there are minor errors in the table, which overstated the \$2 billion total appropriations by \$404 thousand (a difference of 0.02%, which is acceptable for an informational, but not an accounting, document).

The most important aspect of this information is that it allows us to answer the larger question, namely, whether the real dollars transferred to the FAS were used according to the requirements laid out in the Compact. As stated earlier, the Single Audits, which are a formal Federal accounting and review tool, have not found non-compliance with the 40% use requirement by the capital account. The table's estimates are also immaterial to the financial reporting of the FAS, which as accounting entities are free to arrange their accounts, aggregate funds and report in a manner that suits their management needs and relevant laws. There is no formal requirement, nor should there be, in the Compact or in generally accepted accounting practices that FAS accounting records should mirror U.S. budget submissions.

See comment 7.

The report also questions the Federal services appropriations total, which it says should be adjusted to reflect annual spending. We understand the recommendation, and would edit the table were that its purpose. However, because the purpose of the table is to reflect the annual allocation of appropriations, it is accurate as presented.

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With regard to the funds appropriated for Federal services, it is misleading to state that the Department cannot "account" for \$27 million. It is correct that we were unable to provide financial records for all payments for Section 221(a) Federal Services since 1987. Unavailable official accounting records include those of the first years of the Compact. However, these records are not missing. There is no Federal requirement that official accounting records be kept beyond six years. Hence, the Department cannot be criticized for not retaining information it is not required to keep.

Significantly, the Department's Office of Insular Affairs is audited annually by the Inspector General under the Chief Financial Officers act. The office is one of the minority of government agencies that has received only clean audit opinions on its financial reporting, which do not show \$27 million missing. There is no justification for this report to portray the Department of the Interior as remiss in accounting for the Federal services funding.

See comment 8.

The report criticizes the Department for providing a schedule of Federal programs expenditures which did not agree with the information GAO collected from individual agencies. We believe this criticism is unwarranted since the Department is neither required nor authorized to account for other Federal agency spending. The schedule referred to by the report was developed for internal Interior use as a measure of the amount of Federal grant funds expended by the FAS governments. The information was taken from the Single Audits. As such, we recognize, as GAO too should, that it would probably not match Federal agency grant records, which often report on authorized, not actual, spending. Because it focuses on what the governments spent, the information does not include the large amount of loans for telecommunications, nor does it capture the student assistance FAS students receive in the United States from campus-based programs. It also excludes certain grant funds given to FAS agencies which escaped the audit threshold, and information from those agencies for whom we did not have reports. Nevertheless, the information included came from audited sources and was accurate within the above limitations. As a consequence, we find that the report makes too much of an internal document provided to direct the authors to the information needed for this report.

See comment 1.

Conclusions Are Inappropriate:

The report is unfortunately based on a false premise. The report fails to understand the role of the Department of the Interior regarding other Federal agency programs operating in the Freely Associated States. Lacking authority to oversee the programs of other Federal agencies which are authorized by law and which use their own program funds according to their own rules and regulations, the Department does not and cannot control the timing, purpose and amount of any grant award. The Department also has no authority or responsibility to account for program funds disbursed by other Federal agencies.

See comment 9.

Finally, the report's general recommendations make sense only if Federal programs are extended in the next Compact term, if it is determined that one agency should account for all grant funding, and if necessary legislation is enacted to create and enforce such a central grant authority.

**Appendix III
Comments From the Department of the
Interior**

Comments on the Appendix and Agency Reports:

The Department views with interest the Federal programs totals noted, and hopes they are useful to negotiating a new Compact. We fear that the FAS may not accept the totals as they may not correspond with their audited financial statements.

See comment 10.

We also question whether loans should be considered Federal assistance in this report. Loans for telecommunications, for example, are being repaid with interest. If these loans are made at commercial interest rates, they are no different from other bank loans and should not be counted as assistance. If, however, the loans are subsidized by a low rate of interest, only the value of the subsidy should be reported.

See comment 11.

Some provision ought to be made for Pell grants and work study programs. Although the colleges in the FAS benefit from these programs, most of the funds are actually expended on U.S. campuses and never flow through the FAS treasuries.

We would also ask for a refinement in the report's characterization of operational funds. In several instances, the reports says that Compact funds were used "for recurring operational activities, *such as infrastructure maintenance*." The types of recurring operational activities underwritten by Section 211 funds include any legitimate expense incurred by a government. The funds are a general funds subsidy, and as such may be used for any public purpose.

If you have any questions regarding our response, please contact Ferdinand Aranza, Director of Insular Affairs, at 202-208-4736.

Sincerely,



FOR J.B.

John Berry
Assistant Secretary
Policy, Management and Budget

GAO Comments

The following are our comments on the Department of the Interior's letter dated April 20, 2000.

1. We disagree that our draft report suggested that Interior was responsible for the disposition of moneys provided by other agencies. As the draft report stated, Interior is identified in the Compact as the agency responsible for supervising, coordinating, and monitoring the federal assistance programs being provided. As such, we believe it is fundamental that Interior has knowledge of the programs and dollar amounts of assistance being provided by the other agencies. The draft report did not propose that Interior affect the amounts granted or the uses to which the assistance may be put.
2. We disagree with Interior's characterization of its responsibilities under the Compact. Section 105 (b) (3) of Public Law 99-239 states that all programs and services provided to the Federated States of Micronesia and the Marshall Islands may be provided only after consultation with and under the supervision of the Secretary of the Interior. In the same section, the head of each federal agency is directed to cooperate with the Secretary of the Interior and make personnel and services available as the Secretary may request. Interior's Office of Territorial and Insular Affairs *Administrative Manual* states that the Secretary made the determination to create a direct grant relationship between the federal agencies and the Island governments. According to the manual, the policy determination was communicated to all the federal agencies. Our draft report did not address whether the Secretary was legally authorized to establish such a relationship.
3. We disagree that Interior's coordination and monitoring activities have met operational requirements. In order to fulfill its coordination and monitoring duties, Interior should have knowledge of the type and amount of assistance being provided by other agencies. The information Interior provided to us on the amount of assistance provided by other agencies was inaccurate and incomplete.
4. We disagree that responsibility for collecting financial information lies elsewhere. We believe that good management practices dictate that in order for Interior to supervise, coordinate, and monitor the federal assistance programs being provided by other agencies, they should have a basic knowledge of the amount of assistance being provided by those agencies. There is no other agency that would have such responsibility

under the Compact. While the Compact's enacting legislation provides GAO with authority to audit grants and assistance provided by the United States, GAO is not be responsible for collecting and maintaining financial information on such transactions.

5. We disagree that our draft report did not give credence to reports under the Single Audit Act. In addition, the draft report did not take exception with the annual audit reports of the financial statements from the Federated States of Micronesia and the Marshall Islands. We pointed out in our draft report that it is important for Interior to understand how the Islands have allocated funding in order to determine compliance with Compact requirements. Furthermore, as part of our recommendations, we suggested that Interior make use of the annual reports from the Islands to help identify how funds were allocated.

6. We disagree that we misunderstood the nature of the table published in the budget justification to the Congress, which Interior stated is not part of its official accounting records and reflects appropriation allocations rather than payments. When we asked for the records that documented the assistance provided under the Compact, Interior officials gave us the table from the budget justification to show what funds they provided the Islands and, absent other data, we used it for such purpose. Because it was important that we had accurate figures, we compared it with various documents and found the errors that we reported. In addition, Interior said that the table allows them to determine whether the dollars transferred to the Islands were used according to the Compact requirements. We disagree. The table, whether Interior payments or appropriation allocations, is not a useful document in determining whether the Islands are appropriately using the funding. The table is developed by Interior based on its allocation of funding and does not reflect how the Islands actually used the funds. This cannot be done without examining Island documents, such as those included in the annual audits. In part because of this, we suggested in our recommendations that Interior make use of the annual audits to help identify how funds are actually allocated.

7. We disagree that the Federal Services account totals in the table submitted in the budget justification are accurate as presented. Interior stated that the totals were meant to reflect annual appropriations as opposed to actual payments made. We note that, if the totals are appropriation allocations, they are still inaccurate. For example, in 1997, \$20 million was reprogrammed from this account, yet the figure for that year was not accordingly adjusted. We modified the report to state that

Interior could not provide documentation for approximately \$27 million out of the Federal Services account rather than could not "account" for the funding.

8. We disagree. When we asked for information on the amount of assistance provided to the Federated States of Micronesia and the Marshall Islands, Interior gave us a schedule of federal agency assistance. We expected that Interior, as the agency responsible for supervising, coordinating, and monitoring federal programs, would have accurate data on the amount of assistance provided by those agencies. The information provided to us was inaccurate and incomplete. However, our primary point is not that this particular document is inaccurate but that Interior did not have better information available for performing its oversight functions. As a result, we made recommendations to provide better monitoring and coordination under the Compact.

9. We agree with the Department of the Interior that our recommendations can be accepted only if, in the next Compact term, it is determined that Interior maintain its role as the agency responsible for supervising, monitoring, and coordinating federal programs. We have modified the recommendation to the Secretary of the Interior to clarify that the recommendation is appropriate in the event that Interior retains its monitoring and coordination role. In addition, we modified the recommendation to the Department of State to make it more useful in the event Interior no longer retains these responsibilities.

10. We added footnotes to tables 1 and 3, showing the amount of assistance provided in the form of loans.

11. Appendix II includes information about programs provided by federal agencies. Pell Grant and work study program amounts are indicated in tables 13 and 14.

Comments From the Department of State



United States Department of State

Chief Financial Officer

Washington, D.C. 20520-7427

April 17, 2000

Dear Mr. Hinton:

We appreciate the opportunity to review your draft report "FOREIGN ASSISTANCE: Better Accountability Needed Over U.S. Assistance to Micronesia and the Marshall Islands," GAO/RCED-00-67, GAO Job Code 141368. We provided to your staff technical changes that have been incorporated into the final report.

The draft GAO Report recommends that the Secretary of State negotiate provisions to the Compact of Free Association that require that the Department of the Interior (DOI) maintain reliable data on assistance and provide better accountability of the funds provided. We concur with the GAO recommendation that there be greater accountability for assistance provided under the Compact. We do not concur with respect to funds not included in the DOI budget. New policies and procedures are under consideration that would relieve the DOI of the responsibility to monitor and supervise assistance not included in the DOI budget. Who would assume these responsibilities is a subject under consideration by the Interagency Group on Freely Associated State Affairs.

If you have any questions concerning this response, please contact Mr. John Fairlamb, Office of Compact Negotiations, Bureau of East Asian and Pacific Affairs, at (202) 736 - 4418.

Sincerely,

A handwritten signature in dark ink, appearing to read "Bert Edwards".

Bert T. Edwards

cc:
GAO/RCED – Ms. Jones
State/EAP/OCN – Mr. Fairlamb

Mr. Henry L. Hinton, Jr.,
Assistant Comptroller General,
National Security and International Affairs,
U.S. General Accounting Office.

Comments From the Republic of the Marshall Islands

Note: GAO's comments supplementing those in the report text appear at the end of this appendix.

The page numbers in this letter refer to a draft of this report. We have indicated page number changes.



EMBASSY OF THE REPUBLIC OF THE MARSHALL ISLANDS

2433 Massachusetts Avenue, N.W.,
Washington, D.C. 20008
Tel. # (202) 234-5414
Fax # (202) 232-3236

April 21, 2000

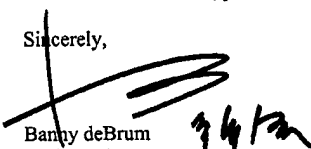
Ms. Gary Jones
Associate Director, Energy, Resources,
and Science Issues
General Accounting Office
Washington, DC 20548

Dear Ms. Jones:

It is my distinct pleasure to deliver the response of the Government of the Republic of the Marshall Islands (RMI) to the GAO draft report, Compact of Free Association: Better Accountability Needed Over Payments to Micronesia and the Marshall Islands. I sincerely hope that our comments will be helpful to the GAO as it finalizes the report.

At this time, I would also like to extend my personal thanks to you and your staff for working closely with the Embassy from the beginning. If you would need any further information or assistance in the future, please do not hesitate to call on the Embassy.

Sincerely,


Banpy deBrum
Ambassador

Appendix V
Comments From the Republic of the Marshall
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REPUBLIC OF THE MARSHALL ISLANDS
MINISTRY OF FOREIGN AFFAIRS AND TRADE
P.O. BOX 1349
MAJURO, MARSHALL ISLANDS 96960

April 13, 2000

Ms. Gary Jones
Associate Director, Energy, Resources,
and Science Issues
General Accounting Office
Washington, DC 20548

Dear Ms. Jones:

At the direction of H.E. President Kessai H. Note, I am pleased to respond on behalf of the Government of the Republic of the Marshall Islands (RMI) to the draft report of the GAO. I would like to take this opportunity to first thank the GAO for providing a copy of the draft report, Compact of Free Association: Better Accountability Needed Over Payments to Micronesia and the Marshall Islands, to the RMI for comment. The RMI Government realizes the significance of this report in developing our mutual understanding of assistance and/or allocation of funds provided to the Marshall Islands both prior to and during the Compact of Free Association. In that context, I am pleased to forward to you the RMI Government's comments on the GAO report.

The attached comments reflect the RMI's serious concerns that both the request made to the GAO and its response are based on misconceptions about the terms of the Compact in certain respects. As a result, we believe some of the information in the draft report is misleading and inaccurate at times. The unique history of the Marshall Islands vis-a-vis the United States is not adequately explained in the draft. In our comments, the RMI Government has provided the necessary context and background within which the figures cited in the report can be critically examined.

You will note that we have organized our comments into three parts. Part I summarizes our position in brief. In Part II, we address the text of the draft page by page. Finally, Part III briefly concludes our commentary. We thank you in advance for your consideration of these comments and hope they will be reflected in the final draft.

Again, we welcome the opportunity you have afforded the RMI Government to review and comment on this report. Please do not hesitate to contact me should you have any questions.

Sincerely,


Alvin Jacklick
Minister of Foreign Affairs and Trade

ONE: (692) 625-3181/3012 FAX: (692) 625-4979 Email: mofat@ntamar.com RMI: Website <http://www.rmicmbassyus.org/>

Appendix V
Comments From the Republic of the Marshall
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PART I: OVERVIEW

The Government of the Republic of the Marshall Islands (RMI), having reviewed the General Accounting Office's (GAO) draft report, is seriously concerned that the report misrepresents and confuses the unique history of U.S. financial assistance to the RMI. The confusion stems from the report's repeated failure to provide any background or context to the figures for U.S. assistance that it cites. The RMI considers the following points to be essential to establishing a more complete understanding of U.S. assistance in the islands:

1. Under the Compact of Free Association, the U.S. provides economic assistance to the RMI in exchange for military and strategic benefits that the RMI provides to the United States. Thus, it is a misrepresentation to frame the discussion in terms of "foreign assistance."
2. It further confuses the case to present the total amount of U.S. assistance as money given to the RMI to benefit the RMI. Under the Trust Territory of the Pacific Islands (TTPI) regime, U.S. funds were completely controlled by U.S. federal agencies and administrators with responsibility for programs and activities conducted in the region. Even after the RMI became self-governing, indirect U.S. program assistance remained outside of the RMI's control.
3. For this reason and others, it is extremely misleading that \$250 million is reported as prior "compensation" for the effects of the testing on the people and lands of the Marshall Islands.
4. The Section 177 Agreement provided for the first time a framework for compensation to affected communities and individuals. However, it must be noted that a significant portion of that money continues to benefit the U.S. through the DOE driven scientific and medical research conducted in the Marshalls.

In the following pages, these points are explained in full.

PART II: SECTION SPECIFIC COMMENTS

- "FOREIGN ASSISTANCE" (Title Page)

Although the report's title is "Better Accountability...", the large bold print words "FOREIGN ASSISTANCE" on the title page should be deleted. Compact funding is not provided under the Foreign Assistance Act of 1961, as amended, codified in Title 22 of the U.S. Code. Rather, it is provided under statutes printed in the Historical and Statutory Notes accompany Section 1681 in Title 48 of the U.S. Code. Compact funding is therefore not included in the budget of the State Department or the Agency for International Development (AID). Compact funding is instead provided through the "850 Account" for domestic spending programs including those administered by the Department of the Interior. In this context, the reference to "FOREIGN ASSISTANCE" is both confusing and misleading.

See comment 1.

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Now on p. 5.
See comment 2.

- *"The Compact granted these two former Trust Territory districts their independence..."* (Page 1).

As a matter of technical accuracy, it should be clarified that the Federated States of Micronesia (FSM) comprises islands that were organized into four of the six Trust Territory districts. The Republic of the Marshall Islands (RMI) was also one of these six districts. It should be further clarified that the Compact provided the basis for U.S. and international recognition of the FSM and RMI as sovereign nations in free association with the United States. However, subsequent admission of both nations as members of the United Nations with support from the U.S. constitutes full recognition under U.S. and international law that free association as defined under the Compact is consistent with the status of independent nationhood.

Now on p. 7.
See comment 3.

- *"Prior to the Compact, the United States provided about \$250 million to the Republic of the Marshall Islands as compensation for the effects of the U.S. nuclear weapons testing program..."*, and that the *"...Departments of Defense, Energy, and the Interior provided this compensation in the form of direct payments to the Islands' governments and individuals, rehabilitation and resettlement services, and health care and monitoring of islanders exposed to radioactive fallout"* (Page 2).

The incomplete and often inaccurate description of U.S. "compensation" for the effects for the Nuclear Testing Program throughout this document is deeply troubling to the RMI.

First, it should be clarified that the \$250 million expended prior to the Compact was not provided to the Republic of the Marshall Islands since it did not then exist as a nation. The \$250 million in question was in fact controlled by the departments of Interior, Defense and Energy to fund programs that addressed in various ways the effects of the nuclear testing on the people of Marshall Islands and their homelands. This was not actual "compensation" based on any legal determination of damages or adjudication of costs for recovery, and the purpose of most of these programs was not compensation to manage public needs created by the testing program. For example, it is misleading to describe the cost of evacuation and funding subsistence living for dislocated people as "compensation."

Furthermore, the bulk of the funding was expended for U.S. programs and activities that were part of the process for carrying out the nuclear testing program and then closing down the testing grounds. Of the amounts expended that assisted the Marshallese in any direct way, most of the funding was for carrying out the U.S. role as the administering authority responsible for civil governance of the islands and the affected population, including the discretionary provision of assistance and services to the dislocated populations and communities recognized as exposed.

Small amounts were paid to individuals and local communities as ex gratia or compassionate payments, without any attempt to provide actual compensation. For example, under P.L. 95-134, victims whose thyroids were removed due to tumors were paid \$25,000.00 as

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"compassionate" assistance. This program was a small fraction of the \$250 million cited by GAO, and was not part of any full or final compensation program.

During this period, the Marshallese had limited recourse to legal process and even more limited forms of constitutional self-government. We were subject to virtually unfettered discretion of U.S. military and civilian authorities, under a trusteeship regime that had no precedent in U.S. political history other than military occupation and martial law. Thus, this paragraph is extremely inaccurate especially as it suggests there was an orderly system of compensation for the Marshallese people individually or as a nation.

- *"As Freely Associated States, the government may engage in world affairs as sovereign states with very limited restraint and operate their own fiscal systems" (Page 4).*

In light of this very narrow description of our unique relationship with the United States, the RMI cannot emphasize enough the importance of adding the following background information to this section.

First, under Title III of the Compact the U.S. retains "full authority and responsibility for security and defense matters in or relating to..." the Freely Associated States. This includes the authority under Section 313 to veto any exercise of sovereignty by the RMI which the U.S. determines unilaterally to be incompatible with U.S. security policy. Since the RMI has been a close ally and strong supporter of U.S. policy in the United Nations, the impression may be that delegation by the RMI of plenary governmental authority to the U.S. for a core element of national power is a "limited restraint." However, this is hardly the case. Indeed, the strategic alliance referred to here by the GAO and the accompanying characterization of the RMI ability to operate its own fiscal system cannot be understood without reference to Title III. Specifically, the logic of the Compact's goals of self-sufficiency, fiscal autonomy and mutual security is repeatedly reiterated throughout the Compact and its related agreements. For example, pursuant to Section 321 and 323 of the Compact, the parties agreed and Congress ratified in P.L. 99-239 a Mutual Security pact, Article V of which states:

"The Government of the United States and the Government of the Marshall Islands recognize that sustained economic advancement is a necessary contributing element to the attainment of the mutual security goals expressed in this Agreement. The Government of the United States reaffirms its continuing interest in promoting the long-term economic advancement and self-sufficiency of the people of the Marshall Islands."

Thus the close strategic alliance in the Compact is underpinned by a close economic relationship. The fact that the RMI has a separate fiscal system and as a sovereign nation is not part of the U.S. federal system directly does not diminish the linkage that Congress created in the Compact between its military and economic goals. In minimizing this linkage, the GAO fails to fully inform Congress of the nature of the assistance provided under the Compact.

Now on p. 11.
See comment 4.

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Now on pp. 13, 17, 18 and 19.

- Description of the nuclear legacy (Pages 5 – 6, 10 – 11, 29)

Once again, the RMI is extremely concerned with the misleading information that is presented by the GAO regarding the nuclear testing legacy in the Marshall Islands. The following discussion addresses several inaccuracies in the report.

See comment 5.

1. The suggestion that Enewetak rehabilitation was complete “after the cleanup and reconstruction . . . in 1980” (6) is misleading. The people of Enewetak continue to have limited use of their atoll given lingering contamination in the northern islands and the environmental degradation that occurred as a result of cleanup activities. In addition, the cement-capped dome built to house long-lived nuclear waste not only constrains access to the land but remains unmonitored. The people of Enewetak continue to pursue claims before the RMI Nuclear Claims Tribunal for their losses.

See comment 5.

2. In the one sentence explanation of U.S. measures on behalf of the Utrik community, the draft report fails to inform Congress that while the people of Utrik “were returned a few months after being removed” (6), there remains a deep-seated concern within the community about the consequent health effects they attribute to living in a contaminated environment. In this regard, the Utrikese share many of the same concerns that led to the evacuation of Rongelap.

See comment 6.

3. The statement that since the time of the testing, “the U.S. has compensated the people of the Marshall Islands for hardships they experienced...” (6) represents the crux of the problem in this report’s description of the RMI’s nuclear legacy. While some compensation has been paid, this statement is grossly misleading in that it implies much more. First, under programs prior to the Compact, the U.S. provided certain limited measures to address the effects of the testing on the Marshallese people and their lands. Recognizing the inadequacy of those measures, the Section 177 Agreement then established a more comprehensive program to address the nuclear testing legacy. However, even after all the funding under the Section 177 Agreement has been fully expended, it may or may not be true that the U.S. “has compensated” the people of the RMI for the effects of the nuclear testing. Rather, the Section 177 Agreement specifically establishes a framework under which the U.S. accepts responsibility for compensation, but the scope and amounts of compensation are yet to be determined. Please note the attached submission to Congress by the former U.S. legal advisor to the first Compact negotiations, Howard Hills, confirming that the Section 177 payments were not based on an actual calculation of damages, but were based on the political figure of \$150 million. The \$150 million dollar trust fund and other measures taken under the Section 177 Agreement now and in the future, including any additional assistance provided due to changed circumstances, are all part of the compensation owing to the Marshallese.

See comment 3.

See comment 3.

4. In this context, the statement repeated at page 10 that the U.S. previously provided \$250 million in addition to the compensation provided under Section 177 is again misleading.

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Among other things, the breakdown of this "prior compensation" appearing at pages 10 – 11 confirms the analysis presented above that the earlier measures were ad hoc, random, served U.S. program purposes rather than first and foremost the interests of the affected population, and were inadequate. For example, the Enewetak cleanup cited on page 10 occurred in a limited attempt to mitigate contamination and advance but by no means complete a general environmental rehabilitation. It stretches the meaning of compensation to suggest that the \$134 million spent by the Department of Defense to close down the proving grounds and leave the test sites in a partially restored condition should be considered as the bulk of \$250 million dollars in "compensation" already given to the Marshallese people.

The report further suggests that the \$52 million that the Department of Energy expended conducting medical programs should be counted as compensation. The RMI believes that the GAO's logic is extremely flawed in this case. Considering as "compensation" the DOE's emergency measures to treat Marshallese exposed to nearly fatal doses of radiation as a result of U.S. testing is akin to giving the negligent party in a car crash credit against a court ordered judgment for serious bodily injuries and long term losses based on the first aid given at the scene by the ambulance team. Moreover, given that scientific and medical research programs represented a major portion of DOE's expenditures, it remains in question whether or not the DOE programs were a case of continuing trespass by the U.S. upon the persons and lands of the Marshallese people. The reliance on the DOE program in many cases prevented more comprehensive measures that should have been taken during these critical years.

Finally, the report's analysis of the \$250 million "prior compensation" package ends with a one paragraph description \$66 million that supposedly went to the people. Of the \$66 million, only \$15 million was actually paid out to those recognized as having suffered from the test. This \$15 million is further divided such that only 34% went to relieve the hardship of actual victims, and 64% went into trusts for the communities involved. In other words, the victims of the testing received just \$5,100,000 in direct payments prior to the Compact. This analysis once again reveals the misleading nature of the assertion that \$250 billion dollars in "compensation" was provided to the people of the Marshall Islands prior to the Compact.

See comment 1.

5. As mentioned in the above discussion, the Section 177 Agreement established a framework for compensation within which the U.S. Government recognized its moral and legal obligation to provide for injuries caused by the U.S testing program. This obligation cannot be characterized as "foreign assistance."

See comment 3.

6. Furthermore, the \$75 million that the Department of Energy received to provide "assistance" in the form of environmental and medical monitoring programs in the Marshall Islands funded scientific and medical research that the U.S Government wanted to undertake to better understand the effects of radiation on human beings and the environment. Thus, the expenditure of this money has enormously benefited the DOE specifically and the U.S. Government generally. This is just one of many examples in which the United States and its citizens benefited from allocation of Compact funds.

PART III: CONCLUSION

The RMI Government hopes that the issues and information raised in the above commentary will assist the GAO in finalizing a report that provides not just numbers but a thorough explanation of the data on financial assistance.

The bilateral relationship established under the Compact of Free Association between the Republic of the Marshall Islands and the United States is so unique that understanding the relationship in context becomes particularly critical. The history of U.S nuclear testing and its continuing legacy in the RMI further complicates the picture. Therefore, it is essential that the GAO provide the necessary background information when describing U.S. assistance in the Marshall Islands.

The RMI Government welcomes the opportunity to raise the above issues. We hope to see these complexities more thoroughly explained in the final report.

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Note: Mr. Hills presently has a law practice in Washington, D.C. that includes representation of the people of Rongelap regarding their program to resettle their islands.

HISTORICAL INFORMATION REGARDING
THE MARSHALL ISLANDS NUCLEAR CLAIMS SETTLEMENT
SUBMITTED BY HOWARD L. HILLS*
THE COMMITTEE ON RESOURCES
U.S. HOUSE OF REPRESENTATIVES
MAY 11, 1999

In 1982 President Reagan's Ambassador for Micronesian political status negotiations was instructed, as a result of a National Security Council interagency policy review, to seek the earliest possible termination of the U.N. trusteeship under which the U.S. had administered vast island territories in the mid-Pacific since 1947. This was for reasons the most important of which included the increasingly significant role of the U.S. Army's missile testing range at Kwajalein Atoll in the Marshall Islands in U.S. national security planning and programs.

While the international trusteeship regime gave the U.S. the legal authority to continue its strategic programs in the islands, it also gave the Soviet Union a platform in the Security Council and Trusteeship Council for propagandizing against and attempting to meddle in U.S. national security affairs, including what came to be known as the Strategic Defense Initiative (SDI). These considerations reinforced Reagan Administration determination to end the trusteeship in favor of a treaty-based relationship with a self-governing Republic of the Marshall Islands.

The single greatest obstacle to termination of the trusteeship with respect to the Marshall Islands was the difficult legacy of U.S. nuclear testing program carried out in the Marshall Islands from 1946 to 1958, and the unresolved question of U.S. responsibility for measures to address resulting injuries to persons and damage to lands. Following the establishment of constitutional government in the Marshall Islands, difficult negotiations regarding political status and the nuclear claims issues ensued. Although the final agreements reached in this process were far from perfect and faced criticism on a variety of grounds by national leaders in the RMI and as well as in the United States, the RMI national government ultimately adopted a clear and unequivocal policy in support of the U.S. with respect to trusteeship termination and establishment of a strategic military alliance.

This enabled the U.S. to continue its strategic programs in the RMI, and the RMI achieved national sovereignty. Rather than allowing the nuclear claims issue to persist in a state of legal and political controversy preventing succession of the RMI to separate sovereignty, the RMI entered into a settlement under Section 177 of the Compact in which legal proceedings in U.S. courts were terminated and mechanisms to address the testing claims in the future through bilateral political measures were instituted. The legal effects of this settlement and the intentions of the parties regarding such future measures are discussed below.

After approval of the Compact of Free Association by the U.S. Congress, including the nuclear claims settlement reached under Section 177 of that treaty, the RMI acted in concert with the U.S. in the Security Council, the Trusteeship Council and the General Assembly of the United Nations to sustain and win international acceptance of the measures taken by the U.S. in those bodies terminating the trusteeship. In the face of aggressive and high-visibility efforts led by the Soviet Union to prevent U.N. recognition of the legitimacy of the new status of the RMI and the bilateral relationship between our nations under the Compact, the RMI leadership and their diplomatic representatives stood boldly and unwaveringly with the U.S. in a complex but successful effort to win international acceptance of this new American and RMI strategic alliance.

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With the leadership of the RMI a factor critical to our success, the international community soon moved to recognize the relationship defined by the Compact, including the nuclear claims settlement. The U.S. goal of a successful transition from the U.N. trusteeship to a treaty-based bilateral relationship was achieved, and the SDI program activities at Kwajalein were vital to the success of U.S. global strategic policy in the 80's and 90's.

Understanding the Nuclear Claims Settlement

At the time the Reagan Administration undertook its policy review of unresolved issues preventing the termination of the trusteeship, there were strongly held views by some in Congress and the federal agencies concerned that a settlement of claims arising from the testing program was untenable if not impossible. This was due to the fact that the full extent of injuries to persons and damage to property was not yet known and/or not public due to national security classification policies at the time. However, it had become obvious that the measures that had been taken by the U.S. to address the effects of the testing up to that point, including *ex gratia* assistance to the affected peoples as authorized by Congress, were manifestly inadequate.

For example, Congress limited compensation to individuals from four atolls and provided such measures as \$25,000, "compassionate payments" for individuals who developed thyroid tumors and had to have these organs removed. Medical treatment was provided by federal agency and contractors, but there were dual treatment and scientific research purposes behind much of these services, and much of the available information about the medical condition of individuals, as well as radiological conditions and related health risks in the islands, remained either classified or unavailable to the islanders in a form they could comprehend.

In the face of these and other troubling circumstances, the Carter Administration had agreed in principle that the U.S. should accept responsibility for the nuclear testing claims and terminate legal claims based on a negotiated political settlement. But an early draft of the Compact initiated by negotiators in 1980 left unanswered the question of how a settlement of claims arising from the testing program was to be structured. The Reagan Administration's policy review confirmed the need to negotiate a nuclear claims settlement based on recognition that the Marshall Islands could not emerge from trusteeship to self-government without replacing the somewhat *ad hoc* measures that had been taken unilaterally by the U.S. up to that point with a more comprehensive program implemented bilaterally.

However, the legal position of the U.S. as represented in court submissions by the Department of Justice was that sovereign immunity, statute of limitations, political question doctrine and other legal defenses precluded U.S. courts from exercising jurisdiction or adjudicating liability in the nuclear claims. Since Congress had never extended U.S. citizenship rights to the islands in any constitutionally binding form, and Congress did not decide to legislatively waive these legal defenses so the cases could be adjudicated in the federal courts, a negotiated bilateral settlement that provided other means to address the claims presented itself as the only available alternative to the somewhat random scheme of *ex gratia* payments previously authorized by Congress in the exercise of its political discretion.

The Carter Administration efforts to come up with a solution were stymied by strong and very explicit Congressional opposition to any settlement that expanded the compensation program beyond the four atolls identified as eligible for *ex gratia* assistance in federal statutes (e.g. P.L. 95-134 and P.L. 96-205). At the same time, leadership of Congressional committees with jurisdiction made it clear that any settlement which ended Congressional authority to

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determine the adequacy of past, present or future compensation would face committed opposition in the ratification process. To address these concerns, the Reagan Administration proposed to structure the settlement in a manner consistent with existing statutes to the extent practical. In addition, to preserve the residual authority of Congress over these claims a changed circumstances provision was included under which at the request of the RMI the Congress is to consider information and injuries discovered after the settlement enters into force to determine the adequacy of measures implemented under the settlement.

The settlement reached attempted to accommodate the competing forces described above, and was then included in the Compact of Free Association signed by the United States, the Republic of the Marshall Islands, the Federated States of Micronesia and Palau in the 1982-1983 period. The Compact was approved by the U.S. Congress in 1985 and took effect in 1986 (P.L. 99-239). The nuclear claims settlement concluded pursuant to Section 177 of the Compact was expressly incorporated into the Compact, as approved by Congress in the form of a treaty and federal statute law. As reflected in Section 177(b) of U.S. Public Law 99-239, under the final Compact the U.S. agreed to make "provisions for the just and adequate settlement of all claims which have arisen...or which in the future may arise" from the nuclear testing program.

Thus, one way to understand the Section 177 Agreement is as a substitute mechanism to replace the programs instituted by Congress acting unilaterally with a structured process for continuing on a bilateral basis a program of political measures to compensate and address the legacy of the nuclear tests. In accordance with the end of trusteeship status and the termination of U.S. authority over the nationals of the new republic, under this bilateral mechanism the RMI would act as sovereign on behalf of its citizens in carrying out the settlement.

In addition, the settlement provided for a 300% increase over the funding which Congress had previously established for making *ex gratia* payments under a series of statutes cited in Appendix A of the settlement agreement. Specifically, from 1946 to 1980 the *ex gratia* payments Congress had authorized totaled approximately \$50 million for support to dislocated communities, scientific and medical programs, and cash payments to individuals. Under the Section 177 Agreement, \$150 million was paid to the RMI to finance further compensation and measures through a trust fund established for that purpose.

However, it is imperative to a legally and politically correct understanding of the settlement to recognize that the funding provided under the Section 177 Agreement was not based in whole or in part on an effort to determine actual damages or just compensation for specific injuries or damage to property. Indeed, the amount provided was politically determined based on the level of resources the U.S. offered to establish and sustain the settlement politically in the U.S. and RMI.

If the U.S. Congress or Executive Branch believed that litigation in the federal courts would have resolved the legacy of the nuclear testing program in a satisfactory way, allowing the claimants their "day in court" would have been a more final and terminal solution. However, the decision to continue to address these claims through a political mechanism rather than legal process was based on a belief that litigation brought by Marshallese citizens in the U.S. courts might produce unsatisfactory remedies for the claimants and at the same time reduce or eliminate political support for the establishment of a government-to-government program to address the claims on an on-going basis.

This, however, meant that the RMI and U.S. can and must continually evaluate and determine the adequacy of the political measures being taken to address the effects of the nuclear

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testing program based on all available knowledge and information, and on the results of the measures already taken. Thus, it would be wrong to conclude that the purpose of the Section 177 was to make the nuclear testing claims "go away" so that the federal government would never have to revisit the question of the adequacy of the measures implemented under the initial terms of the settlement.

To the contrary, the termination of legal process was predicated on continuation of the political determination of the adequacy of the settlement by both the RMI and the U.S. Congress. Indeed, the Preamble of the settlement states that the purpose of the agreement is to "create and maintain, in perpetuity, a means to address past, present and future consequences of the nuclear testing program."

I personally addressed these issues in statements submitted to Congress on behalf of the Reagan Administration during Congressional hearings on the Section 177 Agreement. For example, my statement for the record of the Hearing on S.J. Res. 286, Committee on Energy and Natural Resources, U.S. Senate on May 24, 1984, included the following explanation:

"...the Marshall Islands Government may seek further assistance from Congress should changed circumstances render the terms of the agreement clearly inadequate...In brief, the Section 177 Agreement does not foreclose further measures for the benefit of the claimants, and they will have access in the future to an impartial claims tribunal for the purposes of obtaining payments in addition to those provided under the agreement. The only requirement is that they be able to prove their claims in accordance with the procedures and standards promulgated by the tribunal in accordance with the Section 177 Agreement."

Thus, the RMI and Congress are faced in 1999 with the same questions they faced in 1982. Are the politically determined measures carried out in lieu of a legal process to adjudicate claims arising from the nuclear testing program adequate legally and morally to sustain the political, economic, and social relationship that exists between the U.S. and the Marshall Islands? Will the existing measures sustain the relationship between our peoples in the future, or do additional measures need to be taken as a result of the information and knowledge gained as a result of our experience under the Section 177 Agreement?

* From February of 1982 until April of 1986, Howard Hills served as Legal Counsel and Department of Defense Advisor to the President's Personal Representative for Micronesian Status Negotiations. During this period he was assigned to the Office for Micronesian Status Negotiations (OMSN), an interagency office within the National Security Council system responsible for negotiating and representing the Executive Branch in the Congressional approval process for the Compact of Free Association.

Subsequent to approval of the Compact of Free Association, Hills served as Counsel for Interagency Affairs in the State Department's Office for Free Associated State Affairs, Bureau of East Asian and Pacific Affairs. That office was responsible for government-to-government relations under the Compact.

Currently, Mr. Hills has a law practice in Washington D.C. that includes representation of the people of Rongelap regarding their program to resettle their islands in the RMI. Rongelap resettlement is not funded or presently governed under the terms of the Section 177 Agreement.

GAO Comments

The following are our comments on the Republic of the Marshall Islands' letter dated April 21, 2000.

1. We agree that the previous title page heading "Foreign Assistance" may have presented some confusion. We have revised the title of our report to "Foreign Relations: Better Accountability Needed Over U.S. Assistance to Micronesia and the Marshall Islands."
2. We added additional language to the Background section of the report regarding the Republic of the Marshall Islands' independent nation status.
3. We no longer characterize the \$250 million in funding provided in connection with the effects of nuclear weapons testing prior to the Compact as "compensation." However, we continue to provide as much information as possible on the funding provided for the effects of nuclear weapons testing to present as complete a picture as possible. For this report, funding provided prior to the Compact refers to any funds or activities provided in connection with the effects of the nuclear weapons testing program. This includes direct payments to the affected people of the Marshall Islands, trust funds, health care and monitoring, agricultural support, land rehabilitation and resettlement, and radiological clean-up.
4. We added background information to describe the unique relationship between the United States and the Marshall Islands.
5. We included the Marshall Islands' comments on the current state of the Enewetak and Utrik communities.
6. The discussion in this section is designed simply to provide an overview of the Marshall Islands' nuclear legacy and does not suggest or determine whether the amount of compensation provided by section 177 of the Compact was sufficient. This determination was outside the scope of our review.

Comments From the Federated States of Micronesia



The President
Public, Palau
Federated States of Micronesia

April 27, 2000

Mr. Gary Jones
Associate Director, Energy,
Resources and Science Issues
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Jones:

Thank you for forwarding copies of your draft report, Compact of Free Association: Better Accountability Needed Over Payments to Micronesia and the Marshall Islands (GAO/RCED-00-67, code 141368) for our review.

Since we do not have access to the United States Department of Interior's accounting records, or the accounting records of any other U.S. Agency or Department, we obviously cannot respond to your findings thereto. However, we wish to point out that we provided our records of the funding received by the FSM from all U.S. sources to the GAO team during their recent visit to the Federated States of Micronesia. We believe the records covered all funds received during the term of the Compact that was covered within the scope of your review.

Since the audit's findings and recommendations applied to the U.S. Department of Interior, we have no further comments regarding the report. Hopefully, the information we provided to your audit team will prove to be helpful.

Thank you again for the copies of the report. Should you require additional information or if we can be of any further assistance, please do not hesitate to contact us.

Sincerely,

Leo A. Falcam
for Leo A. Falcam
President